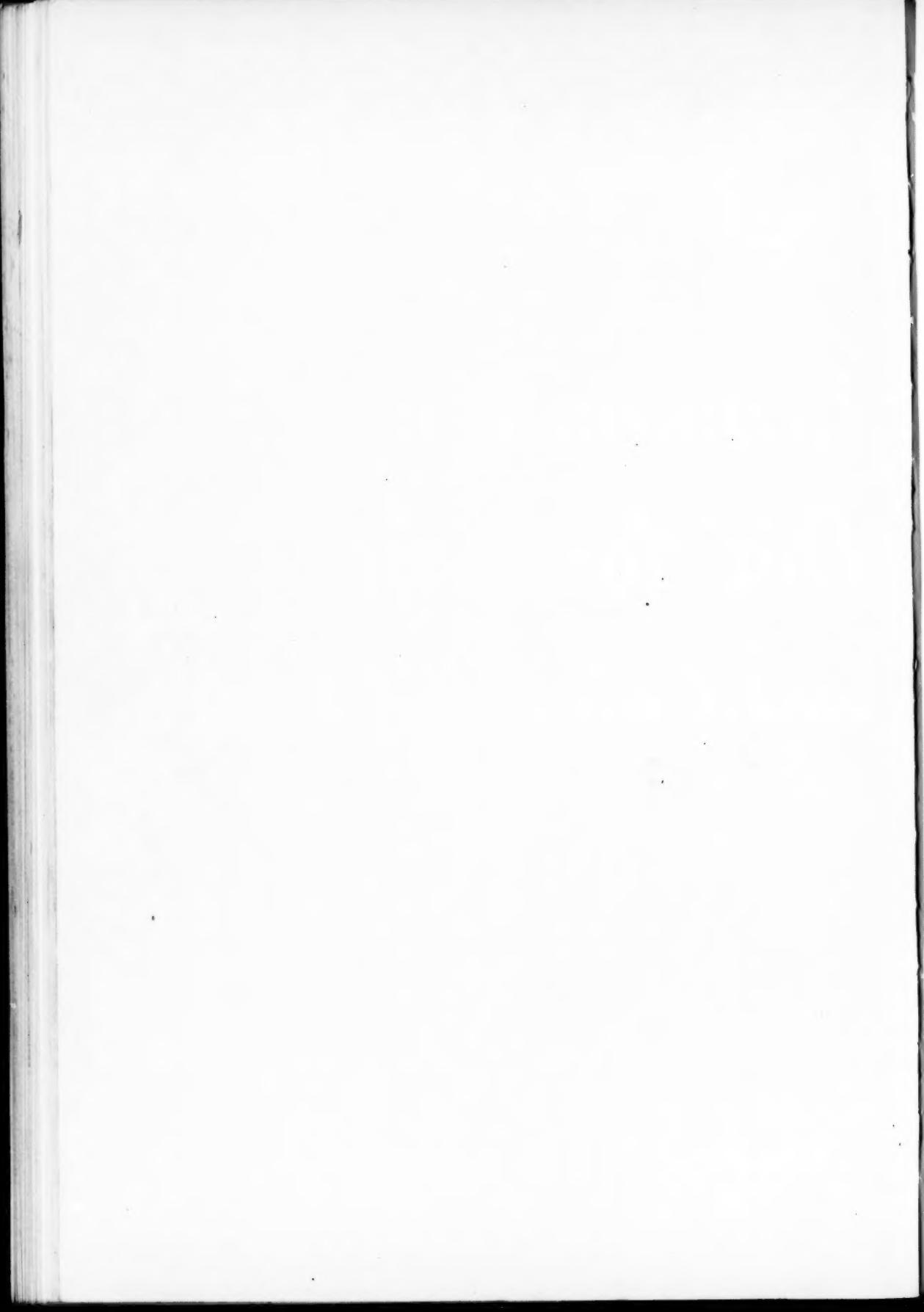




# *Economic Development and Cultural Change*

THE UNIVERSITY OF CHICAGO  
*Research Center  
in Economic Development and Cultural Change*



## ECONOMIC DEVELOPMENT AND CULTURAL CHANGE

A journal designed for exploratory discussion of the problems of economic and cultural change. Preliminary versions of research findings and research hypotheses are welcomed in the interest of provoking constructive and fruitful discussion.

R. Richard Wohl, Editor

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## THE MIDDLE CLASS IN GUARATINGUETA

### INTRODUCTION (1)

The Municipio (county) of Guaratinguetá is situated in the State of São Paulo, on the River Paraíba do Sul. According to the census of 1940 it had 6,758 persons resident in the urban, 8,896 in the suburban and 14,006 in the rural area, that is, a total population of 29,660 inhabitants.

Since the problem of the social classes is closely related to the culture patterns of Guaratinguetá during the last three hundred years, a rapid summary of the characteristics of these cultural patterns is in order.

From 1630 to 1944, Guaratinguetá passed through four economic stages which exhibit three distinct cultural patterns: a) the stage of subsistence economy or closed economy (1630-1775), which displays characteristics of the folk culture; b) the stages of sugar cane refining (1775-1825) and of coffee (1825-1920), the cultural aspects of which is marked by the passage from folk culture to urban and contemporary industrial culture; c) the present stage (beginning in 1920) of industrial economy and urban culture.

Each of these periods shows particularities in the position, social valuations and size of the middle class.

#### FIRST STAGE: Subsistence Economy (1630-1775)

In the subsistence economy stage we find a folk culture due to the isolation created by historical, demographic and geographical circumstances. This isolation and the fact that Guaratinguetá is a transit point for outside trade determine the following sociological characteristics:

(a) On the ecological plane we observe little immigration; little demand for land; widely dispersed population; almost no competition; settlement in the immediate environment of the town and along the roads leading to Minas and the sea.

(b) On the economic plane we observe a monopoly of agriculture and economic prevalence of landowners; extreme poverty of the mass of the people; a subsistence economy supplemented by petty roadside trade; a predominance of small scale exploitation of land; an occupational structure predominantly agricultural; an absolute control of professions by males; small scope for wage labour due to the limited professional opportunities; an economic pyramid with an extremely broad base, a weak middle class and a small élite.

(c) On the social or kinship plane we observe a numerical predominance of the small patriarchal family, rejection in the social value structure of participation by women in the social and economic tasks of society; subjection of all family members to the head of the family who also controls its property; almost complete absence of deviant families; extremely rigid moral rules and strong social coercions exercised by religious forces.

(d) On the political plane we observe a monopoly of political leadership

(1) This essay is an abbreviated account of some of the problems dealt with in the monograph, Evolução de Estrutura Social de Guaratinguetá em Trezentos Anos, 1630-1944, which was submitted as a doctor's dissertation at the University of São Paulo. It was later published in Revista do Instituto da Administração, Nos. 5-6, March-June, 1948.

held by the members of the agricultural élite (Capitães-Mores, i.e., commanders of the militia in a town); subjection of all the other classes to the Capitães-Mores; absence of struggles for power, since the predominant agricultural élite, whose members are related by blood, accepts any one of these members as supreme political leader.

(e) On the demographic plane we observe almost no change in the numbers of the population; very many children; a general deficiency of population in the (biologically and economically) productive classes; and a low proportion of males in these classes; a population pyramid with a more normal shape than in the later stages. (2)

(f) On the cultural plane we observe a folk culture; conformance to traditional techniques and standards of behaviour; passive acceptance of and belief in religions, superstitious and mystical explanations of reality; absence of change or very slow change of cultural patterns; extreme rigor of religious sanctions in social relations.

#### SECOND AND THIRD ECONOMIC STAGES: Sugar and Coffee (1775 to 1920).

The second and third stages are marked, in spite of slight differences, by the same cultural characteristics—in both the folk culture is undermined and the following phenomena appear.

(a) On the ecological plane we find a rapid importation of large numbers of colored slaves, strengthening the dominant position of large land and slave owners; and providing a stimulus to the entry and settlement of whites although on a smaller scale than of the colored population. This is accomplished by a period of intensive competition for land and slaves, leading first to a partition of landed properties (Law of Land-Redistribution), (3) and later to the development of large plantations by annexation. In the town sections for whole-

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- (2) Although the demographic analysis in this paper is based primarily on the census of 1766, it is believed that the figures derived from it are fairly representative for the entire period of subsistence economy. The usual demographic picture described in this paragraph is due to the fact that the settlement of Guaratinguetá, unlike that of typical frontier regions, was formed by large families (some composed of more than 50 persons), rather than by young single men. Under such conditions the normal demographic development would result in fairly equal numbers of males and females in the various age groups. The relative deficiency of young men is explained by the attraction of the gold mines located beyond the boundaries of Guaratinguetá and the attractiveness exerted by expeditions to hunt Indians for use as slaves. See Department of Archives of the State of São Paulo (hereinafter abbreviated to DASSP), Sesmarias, (São Paulo, 1935), Vol. III, pp. 357 f.
- (3) Up to 1835, following Portuguese custom, landed estates were under entail, which prevented their being broken up between the children upon the death of their owners. As a rule an estate went undivided to the oldest son. (See, e.g., Manoel de Almeida de Souza Lobão, Tratado Prático de Morgados, 3rd edition, Lisbon: Imprensa Nacional, 1841, chapters iii, iv, vi, and ix). In 1935 entails were outlawed and the new law (Lei de Partilhas), provided that upon the death of a proprietor an inventory had to be made and that all children shared equally in the estate. (See, Texeira de Freitas, Consolidacão das Leis Civis, Art. 48, p. 586, and Armitage, História do Brasil, p. 229.)

sale trade with luxurious two-storeyed houses are developed, country houses are springing up, and the town expands through the establishment of new shops along the roads.

(b) On the economic plane we find trade opening up with the outside, increasing economic and social contacts. In the second stage the formation and in the third stage a reshuffling of new social classes is facilitated. Members of the fourth class rise as a consequence of giving freedom to individual slaves and the general abolition of slavery and become artisans; members of the third class rise, if they are successful in the roadside trade; and because members of the highest, and especially the second highest class are hit by the Law of Land-Redistribution, they move downward in the social scale. The cultivation of certain agricultural products becomes a class privilege. These tendencies favor monoculture as the economic basis of society and the formation of a rural aristocracy which constitutes the economic, social, and political élite. The occupational structure continues to be predominantly agricultural, but handicrafts increase and become more diversified thus serving to satisfy the luxury needs of the agricultural élite. Occupational opportunities in commerce increase numerically. The proportion of wage laborers in the population grows, owing to the increase of slaves and free laborers; women begin to perform economic roles, not only in domestic industries, but also in commercial, public and liberal occupations. The importance of urban employment grows. The economic pyramid of the country becomes steeper with a diminution of its base, an extension and growth of the middle and upper classes, and an overall increase of its height.

(c) On the moral plane we find in both stages an alteration of the earlier family structure, through the introduction of the joint family that predominates in the upper and middle classes. The small patriarchal family predominates in the third and fourth (slave) classes. Deviance in family relations is frequent in the fourth class and in that part of the third which is made up of colored freedmen.

(d) On the political plane we observe how the social structure is reflected in the intense struggles for power and how the fierceness of competition in the economic and ecological planes is translated into political conflict. The fluctuations in power of the political parties depend on variations in the economic fortunes of different families. The political leadership of the great patriarchal families, which are prominent in social and economic life, is assured in both major parties of that time. The bulk of the membership of political parties consists of persons with middle class background. The middle class thus forms a mass basis in each of the political parties and supports through its solidarity with one or the other rival group of upper class families the political predominance of the upper class.

(e) On the demographic plane we find that in both stages the composition of the population is altered with the coming in of Negroes and that intermarriage between the races takes place. This increases the population and alters the shape of the population pyramid, owing to the different characteristics of the various stocks and the selective character of immigrants.

(f) On the cultural plane we find in both stages an extension and elevation of education. Handicraft techniques are perfected. The religious life reproduces in its festivals, altered and rendered more elaborate, the complexity of the social structure and the hierarchy of the classes. The church, reigning supreme during two centuries, unites with the agricultural élite in the struggle for power, becomes owner of slaves and landed estates and takes a milder and

less intransigent position as regards customs and folkways. Direct and indirect cultural contacts with the outside undermine and destroy the folk culture especially among the upper class, and, in this way prepare the other classes for the development of an urban industrial culture which is to follow.

#### FOURTH STAGE: Mixed Rural-Urban Economy (Beginning in 1920)

The last economic stage through which Guaratinguetá passes and which is characterized by the predominance of urban values over rural, exhibits the following features.

(a) The ecological plane is characterized by the subjection of ecological factors to geographical and economic forces, and the adaptation of agriculture to geographical imperatives; by an excess of emigrants over immigrants, causing a fall in population; by the predominance of urban development and the greater attraction exercised by the urban area to newcomers; by the formation of distinct ecological areas in the city and of nuclei and villages in the rural parts; and by the intensification of communications and contacts with the outside.

(b) On the economic plane the free labor contract is extended to all. Corporate enterprise gets a start, but individual firms still predominate; agricultural techniques are simplified, and urban handicrafts use machinery. Status based on traditional privileges gives place to status based on economic power. The class structure becomes more complex and is changed by the descent of members of the upper and middle classes, and the ascent of members of the third and former fourth class. The occupational structure shows a predominance of urban jobs. The economic decline of the county is revealed by the expansion of the lower classes, the diminution of the middle and upper classes, and a flattening of the economic pyramid.

(c) On the kinship plane we find that the family loses part of its former cohesion, decreases in size and takes on a simpler structure. The small patriarchal family again predominates, but there are instances of matriarchal families and the frequency of deviant family relations increases. The old standards of morality of family life are weakened by the decline of rural seclusion, the economic emancipation of family members, the influence of urbanism and of direct and indirect contacts with foreign culture patterns.

(d) On the political plane the struggles for power disappear and popular representative parties decline in number. In spite of the growing political role of the middle class, favoured by the development of urbanism and the opportunities which the new economic structure has brought it, the political hegemony continues in the hands of the old agricultural élite which for economic reasons and because of traditional social prestige, is united with members of the liberal professions.

(e) On the demographic plane the population declines in size, it becomes less complex ethnically because of the enormous decrease of colored people who emigrate from Guaratinguetá after abolition of slavery.

(f) On the cultural plane we find, in spite of the predominance of urban life, numerous survivals of the old folk culture in conservatism, in superstitions, in localism, in the often negative reaction to new ideologies and cultural standards foreign to the locality.

THE MIDDLE CLASS IN THE STAGE OF  
SUBSISTENCE ECONOMY (1630-1775)

During the hundred and forty five years of subsistence economy, the differentiation between social classes in Guaratinguetá is blurred. Various causes contribute to this phenomenon.

One of the characteristic features of the economic structure of the São Paulo municipalities, in the 17th and early 18th centuries, is that they were composed of small cultivators practicing mixed farming. The cultivation of large tracts of land was difficult because of the danger faced by the more remote regions of a settlement which are exposed to attack by savages and because of the lack of laborers for the clearing of ground and planting. This made necessary the concentration of all farm work in the hands of the family members (4) which imposed further obstacles to communication and mutual aid. (5) All these factors made possible only small holdings and small-scale farming. These factors also caused production to be so limited that it was barely sufficient for the family's requirements with little remaining over for sale or exchange. Trade was rudimentary, and consisted, at first, only of roadside commerce with miners and travellers on their way to Minas, Parati, Ubatuba and São Paulo. The commodities exchanged consisted of cereals, flour, sugar and rum for cloth, salt and farm implements. (6)

Under these conditions, economic differentiation between persons would certainly be small. The spread of the distribution of annual income goes from zero to 16,000 cruzeiros. The greatest frequency of annual income was the economic values in the class of persons without means (323 heads of families, or 59.16 per cent of all families) and that with very limited means (117 families or 21.42 per cent). Both these groups constituted the economically lower class. The middle class was weak, made up of 96 families, or 17.58 per cent of all families. The upper class consisted of 10 heads of families, or 1.83 per cent.

Not only the economic position but also other factors determined the places of individuals within and their distribution between the different social classes.

Upper class families characteristically owned land of some extent, on an average 100 to 250 alqueires (600 to 1,500 acres). Land was bestowed preferentially on original settlers and conquistadors, the sons, daughters, grandchildren, or those married to a descendant of an original settler or conquistador. Land of lesser extent was given to people who asserted in their petitions that they were married, and had living with them their children, grandchildren, etc., or that they were married, and had a large family and Indians living with them as servants. In this sense the privileges, derived from conquest and clearing of the backlands, determined different forms of ownership for the various classes as regards the size of holdings. (7) In the families of the high-

(4) DASSP, Sesmarias, vol. III, pp. 57-357.

(5) Saint Hilaire, Segunda Viagem do Rio de Janeiro a Minas Gerais e S. Paulo, 1822, (São Paulo: Cia Editora Nacional, 1932), p. 136.

(6) DASSP, Correspondencia dos Governadores, MS., fasc. 62, folder 1, doc. 37.

(7) DASSP, Sesmarias, vol. I, pp. 16, 19, 25, 33, 36, 42, 49, 70, 89, 109, 117, 134, 152, 173, 304, 309, 312; vol. II, pp. 61, 84, 243, 337, 357, 363, 370.

est class besides the family members, "poor relations," "agregados" (hired laborers), "fatherless" participated in the farm work. This labor force, however, never exceeded twenty or thirty individuals altogether. (8) The upper class included in addition three individuals who, besides being descendants of farmers, owned businesses.

This upper class constituted, politically the "Body of Good Men" which, according to the Law, should always be composed of the "chief people of the land, on account of their birth, their wealth, their fame acquired in war and the conquest of the frontier." (9) These men held political power since, as representatives of the county, they choose its government. These electors elected, annually, five of their number to the Senate charging them with the administration of public affairs. Besides the Senate, there was the post of Capitão-Mor, with executive, administrative and judicial functions. The post of Capitão-Mor was always filled by a member of the highest class.

The middle class was made up of landowners who owned small holdings, with a production averaging between 20 and 30 alqueires (each about one and a half bushel) of maize, (10) a few merchants and artisans. It comprised 76 families of agriculturists (13.92 per cent), 8 shopkeepers (1.46 per cent), 7 artisans (1.28 per cent), 2 families the heads of which were in the employment of the Church (trustee and clerk of the parish church, and tax-collector) (0.37 per cent), 3 public officials (0.55 per cent). In all there were 96 families, or 17.58 per cent of the total population. The middle class was made up of people who, though old inhabitants of the county, did not belong to the families of the conquerors or of the first settlers in the Municipality. They possessed no political rights. They belonged to the Militia or Companhias de Ordenanças, but never occupied higher posts, which were reserved for members of the highest class.

The lower class was composed of people who cultivated land they rented or which was allotted to them freely for cultivation, or who owned small parcels of land the output of which sufficed barely for the family's needs ("he harvested just enough for his sustenance, he had no surplus"). The lowest class comprised 386 families the heads of which were engaged in farm labor (70.69 per cent), 13 were engaged in petty trade (2.38 per cent), 10 in public professions (1.83 per cent), 28 were artisans (5.13 per cent). Altogether the class was made up of 440 families, or 80.59 per cent of the total number of families.

#### THE MIDDLE CLASS IN GUARATINGUETÁ DURING THE STAGES OF SUGAR-REFINING AND COFFEE (1775-1920)

In the stages of sugar and coffee plantation the economic-social structure of Guaratinguetá became increasingly complex. We note a growing differentiation in the annual incomes of different families; this differentiation furthered the formation of distinct classes. We note four well-defined classes: the owners of sugar refineries in the earlier stages, the large coffee planters in the later one; the middle class composed in both stages by the small and medium independent farmers, tradesmen, artisans, etc.; the lower class, made

(8) DASSP, Levantamento da População, MS., room 8, fasc. 48

(9) DASSP, Leis Coloniais Portuguesas: Regimento de 1570.

(10) DASSP, Levantamento da População, MS., room 8, fasc. 48.

up of free persons who owned no property and lived by working for wages; and the slaves.

Factors favoring interclass mobility.

Various forces affected and intensified interclass mobility during these two stages. Most important among the forces were the Law of Land Redistribution, involving the partition of large estates, the development of agriculture as a privileged occupation, the extension of roadside trading, measures favoring the abolition of slavery, trends in rural and urban handicrafts. Thus, during this stage there appear not only four well-defined classes, but also marginal elements. The Law of Land-Redistribution which prescribed the division of an estate on the death of its owner among his children, automatically led to the breakup of these estates, and to the economic decline of many middle class families to the lower class.(11) At the same time the lower class was favored in that persons of this class were allowed to plant coffee on other people's land and by the profits which they derived from participation in roadside trading. With the accumulation of gains derived from these activities, members of the third class bought small pieces of land, and one or two slaves, thus rising slowly to the middle class. The slaves, freed by successive abolitionist measures, took advantage of the possibilities of planting coffee on land owned by others, of entering handicraft occupations, and roadside trading, and thus rose from the fourth to the third class. They almost reached the second economic class, although never the second (middle) social class. Because of space limitations I shall treat at some length of the forces that influenced inter-class mobility, only those that affected the middle class.

The upper (first) class was characterized by the following features.

I. Economic leadership or leadership dominance which was characterized by the following factors: (a) ownership of important sugar refineries, extensive fields of sugar-cane, during the stage of sugar growing, and of great coffee plantations and machinery for depulping and washing the crop, during the coffee stage; (b) ownership of numerous slaves supplemented by subsidiary labor (men working on rented lands, hired laborers, people who were allowed to farm land rent-free) during the sugar growing stage and increased numbers of slaves during the coffee stage;(12) (c) ownership of stores, businesses, houses, and pharmacies in the rural and urban areas; (d) ownership of herds of horses and mules to carry agricultural produce to the chief markets.

II. Political hegemony which was characterized by (a) prestige and economic supremacy favoring political hegemony; (b) prevalence of joint families and solidarity among those persons who controlled great agricultural estates strengthened by the establishment of blood-relationships resulting from inter-marriage between members of different families of the agricultural élite. To this was added the economic and political solidarity of the middle class. (c) political supremacy was exercised by control of the position of Capitão-Mor

(11) DASSP, Levantamento da População, fasc. 52 (1805-1808); fasc. 53 (1810-1816); fasc. 54 (1817-1825); fasc. 55 (1826-1836); Record Office of the County Court of Guaratinguetá (hereinafter abbreviated to ROCCG), MS. Inventarios e Testamentos, 1805-1840.

(12) ROCCG, Inventarios e Testamentos, fasc. 131 (1871), Last will of the Viscount of Guaratinguetá.

in the hands of the agricultural élite, during the sugar growing stage. In the coffee stage the numerical growth of the élite and the unequal strengthening in economic and "social" power or in the number of supporters of different members of the highest class brought about divisions in the élite and intense struggles for power in the legislature. This conflict is proved by ample documentation revealing private acts of revenge, (13) electoral frauds, (14) the use of coercion, (15) and armed conflict. (16)

III. Social leadership was tied directly to the supremacy in the economic and political fields. It manifested itself by special privileges in religious and secular festivities, in fashion, educational opportunities, etc.

The upper (first) class was almost exclusively composed of the agricultural élite, (see tables II, III, IV). From it were drawn, at the end of the 19th and the beginning of the 20th century the persons that attained political leadership in the state and the nation. (17)

#### The Middle Class during the Sugar and Coffee Plantation Stages.

The middle class in Guaratinguetá expanded during the sugar and coffee plantation stages in spite of opposing social forces. The Law of Land-Redistribution was a powerful factor which, during the coffee stage, destroyed special privileges over the land, and increased mobility between classes. It hit small owners more heavily forcing their economic decline from the middle to the lower class. The persons who moved downwards economically, remained marginal for a long time, for, although deprived of their land-holdings (18) they preserved, thanks to tradition, their privileges, i.e., their social status. The successive stages of the economic decline are clearly discernible. The social situation itself favored this decline. Persons who belonged to some of the oldest families and who owned fine mansions in town found that, in spite of increasing economic difficulties, caused by the Law of Land-Redistribution, they had to bear the expenses of a status for which they did not have the means. Many left Guaratinguetá and went to the more recently developed portions of the State of São Paulo; others remained in the county, even in town, and there

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- (13) DASSP, Correspondencia dos Governadores, letter of April 10, 1869, communication from the delegate of January 31, 1856.
  - (14) DASSP, Correspondencia do Senado da Câmara, January 1, 16, and 17, 1861.
  - (15) DASSP, Correspondencia do Senado da Câmara, July 5, May 24, 1858, August 11, 1863; July 12, 1868; O Paraíba (local newspaper), January 31, 1861, March 27, 1860; Correspondencia dos Governadores, Ofícios da Câmara, August 1, 1868; October 14, 1856.
  - (16) DASSP, Correspondencia da Câmara, October 14, 1856.
  - (17) Reference is made to the Rodrigues Alves family. Francisco de Paula Rodrigues Alves was twice President of the State of São Paulo, Federal Senator, and twice President of the Brasilian Republic. He was born in 1848 and died in 1919.
  - (18) ROCCG, Inventários e Testamentos, fasc. 137 (1882); Clara Maria Assunção inherited the fifth part of a slave valued at Cr\$ 150.

lived on the proceeds of their slaves' labor. (19) The cultivation of coffee on a smaller scale than the plantations of the upper class (middle class estates ran from 50,000 to less than 100,000 trees), cattle raising on a small scale, the cultivation of sugar-cane by itself or combined with cattle breeding, cultivation of coffee with mixed agriculture, (i.e., coffee growing, together with cattle breeding, sugar growing and/or the cultivation of cereals), were, however, sufficient to maintain the middle class and save it from the consequences of the Law of Land-Redistribution. Members of the middle class even were unable to add new small holdings to their sliced-up properties by purchase. Commerce, above all the liberal professions, religious offices, industrial occupations and public service were other means which enabled members of the middle class to provide an economic foundation for their social status.

At the same time the middle class tended to grow in size owing to the infiltration of persons from the lower class who had risen to middle class status as a consequence of successful petty trade and their taking advantage of the possibility of planting coffee on rented land.

Although already developed during the sugar growing stage, retail trade, especially when exercised jointly with coffee planting on rented lands, increased greatly during the coffee stage and was a factor furthering the economic ascent of lower class persons. Since coffee, especially in the cherry can easily be sold to large planters, persons of the lower class became slowly wealthier and were enabled to purchase farms. Thus they were elevated economically and politically to middle class positions. (20) On the social plane acceptance in the middle class was much slower, owing to the reaction of the middle class against the invasion of their status positions by persons not traditionally belonging to it.

- (19) ROCCG, Inventarios e Testamentos; (a) Instances in which only a small farm or small piece of land was preserved in a family: fasc. 107 (1860), Manuel Soares Rodrigues dos Santos; 108 (1861), João Francisco de Godoi; 110 (1862), Francisco Ramos Borges, and Manoel Leme Pereira Rangel; 115 (1865), Manoel Galvão de França; 109 (1862), Maria Rita Leite; 127 (1875), José Manoel de Castro Santos; 121 (1870), Gertrudes Fialho de Jesus; 119 (1869), Francisco Rodrigues da Cunha; 115 (1865), Fernando Augusto Simões; 142 (1886), José Francisco de Paula Santos.  
 (b) Instances in which only a town house was preserved in a family: fasc. 138 (1883), Benedito Antonio dos Santos; 129 (1877), José Neves Gonçalves da Silva Maciel; 141 (1885), Coronel Manoel Galvão de França Rangel; 112 (1863), Gertrudes Maria dos Santos, and José Alves Lourenço; 111 (1863), Mariana Francisca de Jesus, and Manoel Antonio Gonçalves; 118 (1867), Maria B. V. Meirelles; 119 (1869), Antonia Simões de Cunha, and Manoel Gonçalves do Amaral; 126 (1874), Rosa Galvão de França.  
 (c) Inheritances insufficient for payment of debts: fasc. 142 (1886), Antonio Pires Azevedo Chaves; 111 (1863), Luiz A. Carlos Monteiro; 110 (1862), Francisco Leme Barboza, 121 (1870), Joaquina Maria de Conceição.
- (20) Constituição Política do Império do Brasil, 1824, (S. Paulo: Cristo Rei Editora, 1944), p. 14, requires as a condition to be an elector in the primary elections an annual income of Cr\$100 (Chapter VI, art. 91, section 50); to be an elector in the election for senators and members of the Provincial Legislatures an income of Cr\$200 per year is required.

The middle class increased greatly as compared with the stage of subsistence economy. Forming 17.58 per cent of all families in 1775, it increased in 1805 to 38.09 per cent, fell slightly in 1840, the time of economic transition associated with the passage from the sugar to the coffee economy, to 31.08 per cent, rising again in 1898 to 35.02 per cent. Up to 1805 the increase in the size of the middle class was almost exclusively due to the numerical increase of the agricultural middle class (13.92 per cent in 1775, 32.25 per cent in 1805, and 24.47 per cent in 1840); from 1840 to 1898 the position of the middle class tied to agriculture declined (24.47 per cent in 1840; 24.27 per cent in 1898). During this period the growth of the middle class in Guaratinguetá was due chiefly to the development of commerce (3.01 per cent in 1840; 5.32 per cent in 1898) and manufacturing (2.28 per cent in 1840; 4.73 per cent in 1898). The economic position of members of the middle class in religious occupations and public service declined. (See Tables II, III, and IV).

The function of the middle class during the sugar and coffee stages was much more clearly defined than in the previous stages, owing to the economic and social development which made its status progressively clearer. In fact, documents of all kinds (economic, religious, political) indicate that during the stage of subsistence economy, the middle class in Guaratinguetá did not have a clear-cut function as yet. In the later two stages the documents are more numerous and allow a more concrete view of the factors and social channels favoring its growth and of the functions of the various classes in the social structure.

Having analyzed the economic conditions of the middle class let us now examine its position and role on other planes of social life. The political attitude of the middle class in Guaratinguetá during the stages of sugar and coffee planting was characterized partly by opposition against the ruling élite; partly by solidarity with the ruling élite; and partly by solidarity with one or another of the groups in the élite who were fighting for power.

The opposition against the élite brings into relief the position of the middle class as intermediary between the popular masses and the ruling élite. We may discern, above all, two different periods in which the middle class took this position: the period between 1775 and 1832, when acting as intermediary and defender of the rights of the people, the middle class opposed the ruling élite by its struggle against the power of the Capitão-Mor; and the period 1832-1834, when its opposition was directed against the legislature.

During the period 1775-1832 the power of the Capitães-Mores gradually weakened due to (a) the decadence of the Militia, (21) (b) the breaking up of the great old administrative divisions, (22) (c) the increasing separation of executive, administrative and judiciary powers, and (d) the numerical and economic development of the middle class. If the owners of the large sugar refineries (upper class) constituted a social force against the administrative supremacy of the Capitães-Mores, there developed from the base of the social structure a middle class which had its center of gravity among the small landholders, and which stood between the people who owned nothing and had no rights, or hardly any, and the politically or economically privileged groups who promoted

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(21) DASSP, Levantamento da População, fasc. 48 (1765-1779), fasc. 49 (1780-1789), fasc. 50 (1790-1798), fasc. 51 (1800-1804), fasc. 52 (1805-1808), fasc. 53 (1810-1816), fasc. 54 (1817-1825), fasc. 55 (1826-1836).

(22) DASSP, Levantamento da População, fasc. cited in previous footnote.

absolutism and monopoly. Thus the middle class played the role of intermediary hampering or weakening the supremacy of the privileged classes. (23)

During the eighteenth and the early part of the nineteenth century the political structure of Brazil conformed to a centralized hierarchy. Under the Portuguese crown was the Governor General of Brazil who appointed the provincial governors (*Capitão General*) who, in turn appointed the heads of the various municipalities and counties within their province. The county governor was the Capitão Mor. Already during the colonial period there were frequent revolts against the central power, represented by the Capitão Mor, in the more important settlements, but in Guaratinguetá we find no such revolts during the subsistence economy stage, because of the absence of an economic and social élite capable of conceiving their own rights and translating them into political action. With the growth of sugar refineries and the emergence of an economic élite and a fair-sized middle class, opposition against the central government develops also in Guaratinguetá. This opposition takes the form of struggle against the power of the Capitão Mor and the main carrier of this struggle is the middle class. The economic élite maintains neutrality because the Capitão Mor belongs to its social group. Between 1775 and 1832 the opposition of middle-class opposition against the power of the Capitão Mor is manifested by such incidents as: (1) non-participation in the military draft; (24) (2) refusal to submit to military discipline by those in service, even in high positions; (25) (3) complaints addressed to the Capitão General about the alleged tyranny of his local appointees. (26)

In the same period we also note the emergence of clan-groups in the community with political function. Their aim was to resist, by all possible means, the order of the central government and its local representatives, such as the Capitão Mor and certain judges. These clan-groups were headed by members of the economic élite, and the clans were made up of kinsmen and friends of the clan heads drawn mostly from the middle class. These organizations were used as instruments of obtaining control of the municipal chamber, sometimes even by faking elections.

During the period 1832-34 were felt the effects of the Code of Procedure which gave considerable juridical independence to the different localities in the management of their special interests and permitted greater unfolding of local sentiment, expressed in the actions of the ruling élite (the municipal councils). The power of these local organs increased and the resistance of the people was made more difficult because of the distance between Guaratinguetá and the Courts of Appeal in Rio de Janeiro. During this period the middle class carried out the function of intermediary between the people and the municipal council, or between the people and the higher courts of appeal.

During the period 1834-38 the middle class was solidary with the élite. This solidarity, which brought about strong political cohesion within the county was one effect of the Additional Act, and a reaction against the officials created by it: the Prefects. The Additional Act was a reaction of the provincial govern-

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(23) DASSP, Correspondencia dos Governadores, fasc. 62, folder 2, doc. 95; folder 3, docs. 91, 103, 111, 126, 141.

(24) Ibid., fasc. 62, folder 2, doc. 10.

(25) Ibid., fasc. 62, folder 2 docs. 72, 76, 97-107; folder 3, doc. 10.

(26) Ibid., fasc. 62, folder 3, doc. 8.

ments against the privileges which the Code of Procedure had conferred on the local authorities. The Office of Prefect was the instrument of intervention by the central government into the economy, the administration, and the courts of the municipalities. The Prefects were executive organs. The municipal councils were deliberative organs. Soon, however, a conflict arose between the Prefects who served the interest of the central governments and the Councils, which were profoundly bound up with the interests of the municipalities.

To combat this exogenous power, represented by the Prefect, the Councils controlled by the agriculturist élite, leaned heavily on the middle class and on the people. Although in complete solidarity with the upper class in this struggle the middle class, whose interests were not endangered as much as those of the élite because its members could never attain the positions of leadership, once more represented a factor promoting accommodation.

In the period 1838-1880, after direct intervention by the central government had been extinguished, the political struggles assumed two aspects; the struggle for prestige positions causing a split of the agricultural élite into opposing groups and a political struggle similar to that which took place during the second Empire. (27) These two tendencies became fused into one, the struggle for power in the Municipal Council. The opposing parties sought to capture positions that would guarantee victory. They fought for control of the Supervisory Board of the National Guard, the Committee or Council of Qualification of Voters, the Municipal Board of Appeals, (28) the Mayorship and the Presidency of the Municipal Council. (29) Among these, in a certain sense, the most important was the "Junta" or Council of Qualification of Voters. This body drew up the lists of voters for local elections, that is, the persons who were to vote for the members of the Council, the Justice of Peace, (30) and the Electoral College. (31)

The political struggles during the entire period of the Second Empire in Brazil exhibited the following features in Guaratinguetá. (1) The conflicting political ideas prevalent in the country were diffused to Guaratinguetá and

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- (27) Reference is made here to the second Brazilian Empire, 1840-1889, under Pedro II.
  - (28) A court to which appeal may be made from judgments of the Junta. It was composed of three members, the President of the Council, the Municipal Judge and a member of the agricultural élite. Cf. DASSP, Correspondencia dos Governadores, uncatalogued docs. dated, July 2, 1856; May 21, July 1 and 2, August 26, September 14, and September 24, 1856.
  - (29) The Council was in the control of the Liberal Party from 1838 to 1864 and from 1878 on, and in the control of the Conservative Party between 1864 and 1878.
  - (30) The Justice of the Peace presided at the bench of the constituency during elections, he supervised the calling of the voters, the voting registers, the placing of the ballots in the urn, and often, when his party was in danger of losing the election, he caused documents showing the defeat of his party to disappear. Cf. DASSP, Correspondencia dos Governadores, uncatalogued docs. of October 8, August 16, and October 5, 1856.
  - (31) The Electoral College had the power of electing deputies, senators and the members of the provincial government.

exerted an influence there. (2) An economic and cultural élite was formed which attained leadership in the local parties in Guaratinguetá, each of which represented one of the opposing national ideologies. (3) This political struggle was only possible because of the existence of a sizeable middle class which supported the warring factions among the ruling élite.

The increase in size of the agricultural élite is confirmed by the number of members composing the Electoral College, which remained in the hands of the agricultural élite because of a legal rule which provided that members of this body required a certain minimum annual income. In 1828 the Electoral College consisted of 28 members, in 1848 of 24, in 1852 of 26, in 1854 of 31. In 1875, although the Electoral College remained under the influence of the agricultural élite, its composition showed the slow political ascent of the middle class. The number of voters in 1875 was equal to that in 1892. According to the provisions of the law the voters were divided according to their economic position into 1624 ordinary voters who could take part only in primary elections, that is, select by their votes the Electoral College, and into 358 electors who were eligible to the Electoral College. Now, these electors who were selected by the vote of the ordinary voters to the Electoral College comprised 290 persons from the upper class (or of the élite), and 68 members of the middle class. This shows, beyond any doubt, the increase of political influence of the middle class in Guaratinguetá. (32) Among the electors that were actually elected in the primary election were 21 members of the agricultural élite (upper class) and 16 members of the middle class (five businessmen, three lawyers, three priests, two civil servants, one magistrate, one physician, one farmer). The middle class thus rose slowly on the political ladder, although the agricultural élite still maintained its leadership, as can be seen from the number of its representatives and the majority of votes obtained.

Socially, in order to compete with the élite, members of the middle class, chiefly the landowners and farmers, turned to liberal professions, as did also the élite. This is an avenue of social and political ascent. During this period there begins the great prestige of the title "doctor." (33) If the élite families, favored by their economic situation, sent their sons to Coimbra and Paris, middle class families sent their sons to the public grade schools, to secondary school, and afterwards to Rio de Janeiro and S. Paulo, to obtain a higher education.

#### THE MIDDLE CLASS IN GUARATINGUETÁ DURING THE PRESENT CYCLE 1920-1944

##### Economic Classes.

From the coffee plantation stage to the present, variations of economic phenomena broaden, and it becomes therefore necessary to consider classes which were of no importance in the former periods.

The greater occupational homogeneity of these stages called for fewer

(32) DASSP, Miscellaneous Documents, Communications from the Council of Guaratinguetá, Manuscript lists of electors.

(33) A. E. Taunay, No Brasil de 1840, (S. Paulo: Imprensa Oficial, 1935), and História do Café, (Rio de Janeiro: Imprensa Nacional, 1939-43), vol. VII, p. 56. See also ROCCG, Inventários e Testamentos, fasc. 108 (1861) and 131 (1882).

economic classes to each of which corresponded an income earned in the different occupations. In the agricultural area, wages of laborers, incomes of the mixed farmers without their own land, of small, medium and large land-owners, were more or less uniform in each class. The income of the members of each of these agricultural classes was grouped around a more or less uniform modal value. In the town the incomes of artisans and commercial employees, of owners of small workshops and businesses, of persons engaged in the liberal professions, religious or public service, paralleled in their equally minute variations the then existing limited social differentiation between the persons. At the end of the coffee plantation stage agricultural income shows wide variations which altered the typical class structure.

In the present stage the distribution of income in agriculture continues to exhibit the tendencies of 1898, i.e., great economic heterogeneity between the various rural classes. This heterogeneity is due almost exclusively to differences in the value of landholdings. The income of each class exhibits the tendency of the previous stages, i.e., concentration around the more or less fixed modal values in each group. As the economic structure takes on progressively an urban character, it finds in these income classes the expression of its heterogeneity; they parallel the amplitude of the variations and diversity of incomes earned in different occupations.

At present, just as status privileges become gradually transformed into economic privileges as characteristic marks of the different classes, so also the social-structural importance of ownership of land weakens, in view of the role played by income from work. Hence we observe an overlap in the classification based on wages and other forms of income and on the values of industrial, commercial, and agricultural establishments.

The lower economic class is comprised of two layers. The lower lower class embraces workers on cattle ranches, coffee plantations or other farms in the rural areas, and in the town, domestic, commercial, industrial and government workers performing unskilled labor which demands almost no special intellectual or technical qualifications. Their wages do not exceed at best Cr\$100 per month. The upper lower class consists, in the rural areas, of individuals occupying positions of greater responsibility, such as foremen, team leaders, etc., and in the urban area of industrial, commercial, government and other workers, occupying positions that demand greater intellectual and technical qualifications. Their monthly wage does not exceed Cr\$500.

The middle class can also be divided into two layers. The lower middle class consists of skilled industrial workers, employees in positions of trust in business houses, civil servants (teachers, directors of Primary Schools, health and other inspectors, etc.), and proprietors of small commercial, industrial, and agricultural establishments. Their monthly income varies from Cr\$500 to Cr\$2,000. The upper layer of the middle class is very small; it embraces persons in the liberal professions and in government with major responsibility, and owners of commercial, industrial and agricultural establishments. Their monthly income is between Cr\$2,000 to Cr\$5,000.

The upper class consists of persons who own large agricultural, industrial or commercial enterprises and who have an average monthly income of from Cr\$5,000 to Cr\$15,000.

The most striking phenomena of the present time period are (a) the great development of the lower economic class, and (b) the sharp diminution in size of the middle and upper classes.

The substantial growth of the lower class in the most recent stage is due to several factors. The enormous fall in the value of money causes a large number of persons, who, by their occupation belong to the lower middle class to shift to the economic lower class. This result obtained because civil servants and other middle class members had relatively sticky money incomes, so that inflation led to their relative impoverishment. On the whole small farmers and officials were most adversely affected, industrial and commercial entrepreneurs, and large planters who sold their product (coffee) on the world market felt the inflationary trends least. Other factors are the economic decline of the Paraíba do Sul Valley industrialization and the consequent employment of a large number of common laborers. Equal in 1898 to 60.11 per cent of the total population, the lower class rises in 1940 to 93.04 per cent. Within this growth we observe a proportional increase of the lower layer (from 3.52 per cent in 1898 to 60.25 per cent in 1930) and a decline of the upper layer of this class (from 56.58 per cent in 1898 to 32.79 per cent in 1940). In other words, we see in the present stage an enormous enlargement of the lower class, consisting chiefly of a vast growth of the lower lower class. This is a sign of a situation of relative poverty never experienced in the earlier stages by the free population, and only surpassed during the period in which slavery existed and the slaves came to be considered part of the economic structure.

In contrast to the substantial growth of the lower class, in the present stage, we observe a great proportional decline of the middle class, and, above all, the upper class, which becomes very small.

The middle class decreases from 35.02 per cent in 1898, to 6.82 per cent in 1940. Made up of two layers the lower middle class declines (from 21.22 per cent in 1898 to 4.70 per cent in 1940) a little less than the upper middle class (from 13.79 per cent in 1898 to 2.11 per cent in 1940).

The upper class also declines. Of its two layers, the lower decreases enormously (from 4.82 per cent in 1898 to 0.06 per cent in 1940), whereas the size of the upper increases slightly (from 0.05 per cent in 1898 to 0.07 per cent in 1940).

To sum up, the present stage characterized by the expansion of an urban industrial economy tends to increase, on the one hand, the size of the lower wage-earning classes and reduce, on the other, the size of the upper class. At the same time the monetary value of productive enterprises increases (current Cr\$2,400,000 are equal in value to Cr\$118,110 in 1775), but since these enterprises are constituted on a corporate basis the real capital of each shareholder is smaller.

The economic pyramid broadens because of the numerical predominance of the lower classes, and flattens out because of the reduction of differences in wealth. (34)

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(34) The data for the economic structure in 1940 have been obtained in the following ways: (a) Field research on (1) industries and commerce in Guaratinguetá in 1938; and (2) living standards of different social groups in Guaratinguetá. (b) Statistical data from (1) Fiscal item 27-A, taxes on industries and professions; (2) City Council of Guaratinguetá, highway tax, valuations of real estate lots, building and land tax; (3) Department of Agriculture, Industry and Commerce of the State of S. Paulo, Estadística Agrícola e Zootécnica, 1938.

The present cultural transition of the middle class.

From the sociological viewpoint Guaratinguetá society is now going through a period of structural transition which is a consequence of the simultaneous occurrence of several factors which disrupt the traditional structure. This transition makes the structure of the middle class in Guaratinguetá more complex and increases the difficulty of understanding its characteristics, but I shall try to analyse its most significant and outstanding features.

The economic transition of the present stage is determined by geographic, demographic and ecological factors. Among geographic factors which press for a change of the traditional economic structure of Guaratinguetá are, above all, the exhaustion of the soil owing to the traditional methods of cultivation; the relative ease with which land can be transformed into pasture because of the widespread occurrence of the *catinga* plant which is native to the region; the fertility of the soil in the lowlands which is composed of recent alluvial deposits, rich in humus and quite acid, which are brought down from the slopes of the sierras by erosion and deposited on top of the geological "Taubaté" formations. (35) All these factors make attractive the abandonment of coffee plantations and the introduction of other forms of agriculture. These new forms, in order to be adapted to the geographic conditions, must be distributed according to the characteristics and qualities of the soil. In the valley bottom horticulture and cereal production are being developed; in the terraces are located the pastures; only in the higher parts, chiefly on the hillsides, where loamy soils predominate, coffee is still the best crop.

Also demographic factors contribute to the pressure for the alteration of the traditional economic structure. Not only the natural increase of the population but also migrations have an influence on the rate of population growth, determining its size. The population of Guaratinguetá rises slowly up to 1805. This indicates the attraction on immigrants exercised by the sugar economy; from 1805 to 1840, a period of transition from the sugar to the coffee economy, the rate of growth slows down somewhat; during the coffee stage, however, entries, chiefly of slave labour, increase to an extraordinary extent, greatly stimulating the rate of population growth, during the present stage the population decreases in size, owing to the exodus of farmers and laborers from the rural areas. Just as immigration constituted the main factor of demographic change in the earlier periods so emigration is the main factor of population decline at present. The growing scarcity of labor also requires new forms of economic activity.

Ecological factors support the effects of the other two factors. The struggle for land ownership in the rural areas initiated by the land redistributions, caused an increasing division of property. The competition between the rural economy, which predominated in the earlier stages, and the present urban, industrial economy exerts a strong pull on the exodus of rural laborers to the city.

Finally, economic and social factors themselves cause an alteration in the economic-social structure. The alteration of the economic structure through the Law of 1888 which abolished the last remnants of slavery; the growth of the system of corporate enterprise, replacing gradually the system

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(35) C. D. Batista, Aspectos do Vale Paraíba e do Reerguimento Econômico no Governo Ademar de Barros, (S. Paulo: Secretaria da Agricultura, Indústria e Comércio, 1940), p. 25.

of economic individualism; (36) the change in the technical conditions of production, in scale of plant, and in growing supremacy of urban over rural economy; (37) all these factors bring about the dissolution of the traditional class criteria that grew up on the basis of the old social-economic structure. (38)

Thus we observe a dissolution of the traditional class criteria, accompanied by the decline of ancient privileges. The traditional élite that had occupied in the past the economic, social and political power positions now finds its economic basis disrupted by several factors. Among them are, above all, the abolition of slavery and the emigration of the freed laborers; the aversion of European immigrants to settle on steep hillsides like those of the Paraíba Valley; the unsuccessful competition with the new areas of the State of São Paulo which are much more favorable for the cultivation of coffee; the prevalence of traditionalism that prevents the introduction of new forms of productive activities. Economic activity is no longer a class privilege. Under conditions of industrialization the production of coffee and sugar requires investments in refining and other machinery, and hence a solid economic basis on the part of whoever wishes to engage in their production. Grain production and cattle raising are fairly independent of the size of property and the wealth of the farm operator and offer opportunities to both the large and the small farmer.

The consequence of these factors is a decline of the economic élite both numerically and in terms of the size of its property. The group traditionally occupying the position of economic élite almost disappears. The majority of it move downward into the middle class. The numerical decline of the upper class is due to the decline of its lower layer (1898 - 4.32 per cent; 1940 - 0.02 per cent) and the complete disappearance of its upper layer (1898 - 0.05 per cent; 1940 - 0.00 per cent) in the rural area. For the first time in three centuries we find in the urban area representatives of the economic élite (0.06 per cent) some of whom are in the lower and some even in the upper layer (0.07 per cent).

The proportion of the middle class is also reduced in the present stage, notwithstanding the contingent of traditionally upper class members who, slipping down economically, become part of it. This decline is due chiefly to the diminution of this class in the rural areas (from 24.21 per cent in 1898 to 3.95 per cent in 1940) and, to a lesser degree, in the urban area (from 10.82 per cent in 1898 to 2.88 per cent in 1940). The decrease of the middle class in the rural areas is caused by various factors. Many of the families on the fringe of the agricultural economic élite have declined in economic importance in the present stage and have left Guaratinguetá to open up new coffee plantations in the newer portions of the State. There occurred a simultaneous decrease of the number of properties of medium value. The decline in the value of money and of land caused many medium sized properties to become worth much less.

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(36) L. Herrmann, Alteração da Estrutura Social de Guaratinguetá num Período de Trezentos Anos, 1630-1944, (S. Paulo: Instituto de Administração, Revista 5-6, março-junho 1948), p. 237.

(37) Ibid., p. 239.

(38) Ibid., p. 240.

The various forces that cause the crisis of the rural economy and tend to destroy the traditional values based on agriculture, favor urban concentration and the development of an urban economy. The town, dominated in earlier stages by "newcomers" ("arrivistas") (39) i.e., foreigners and persons alien to the local traditionalism, offers to the members of the lower class of these earlier stages an opportunity of rising to the middle class. After 1920 foreigners prefer to engage in urban occupations (93.84 per cent of the total number of foreigners), and only a very small part enters rural occupations. In the latter foreigners attain middle class status because they acquire agricultural properties on which they engage in coffee-planting or cattle breeding. In town the foreigners soon form part of the middle class because they acquire commercial establishments. The Italians and Syrians are most active in trade, and the Syrians attain great wealth, on the average equal to that of the native group. But the number of these occupations in the middle class declines from 5.32 per cent in 1898 to 1.33 per cent in 1940. Industry, public service and the liberal professions, are other channels of social ascent from the lower to the middle class, but their relative importance falls as between the coffee stage and the present in industry (from 4.73 per cent in 1898 to 0.40 per cent in 1940) in the liberal professions (from 0.62 per cent in 1898 to 0.23 per cent in 1940) and rises only in public service (from 0.12 per cent in 1898 to 0.90 per cent in 1940).

#### The economic middle class from the economic and social-structural viewpoint.

In the current stage Guaratinguetá exhibits the interesting phenomenon that membership in the economic and the social classes does not exactly overlap. This phenomenon is demonstrated most characteristically by the middle class.

From the economic standpoint there is only one middle class but socially it is composed of two distinct groups. One group consists of the descendants of the "newcomers" (i.e., the foreigners that entered during the coffee stage) and of recent foreign immigrants, the other group embraces the descendants of the traditional élite and of the persons that made up the middle class earlier in the coffee stage. Or, in other words, there is a middle class of "foreigners" or "newcomers" and a middle class composed of the traditional local families, which latter still constitutes the social élite.

If in the economic plane the old class structure was disrupted, on the social plane it continued to exist, maintained by tradition. In the passage from each stage to the following one, changes in the economic structure always precede and usually occur with greater speed than changes in the social structure and social value judgments associated with social classes. Thus although it lost its former economic status and prestige, the traditional élite preserves inviolate its social prestige, continues to be deferred to by social consensus and entertains without change its prejudices against all persons who, as relative newcomers, have not for a long time participated in the life of the locality. This group still remains "the élite" because it is granted, as before, superior status by the popular masses who are convinced of its superiority because it succeeded in inculcating them with the belief in its traditional political and so-

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(39) "Newcomer" ("arrivista") is a term used to designate persons who have come a short time ago to Guaratinguetá. Brazilians from other States or cities who come to Guaratinguetá to take up public positions, or for other reasons, as well as foreigners, are designated by that term.

cial hegemony. It remains a group with almost completely closed associations of friendship, with exclusive social contacts, economic associations and matrimonial alliances. Although, in conformance with one of the characteristic traits of collective mentality, the members of this élite receive "foreigners" with courtesy, they rarely or never return the visits. These families constitute today the trustees and guardians of the traditional cultural standards.

The present is a period of transition between two social structures and two cultural standards in competition with one another and, therefore, it represents a period of unstable social-structural relations and of weakening of traditional forces of control. Among the forces which increased social instability during the last twenty years, are the economic depression; urbanization; the weakening of the impact of religion which used to be so strong in former times; and the cultural shock initiated by the diffusion of foreign cultural standards through the press, the cinema, radio, etc. The result of the simultaneous action of all these forces is a conflict of values and a continuous weakening of the forces of social control.

One effect of this is the weakening of the moral structure of the family and the gradual disruption of the ties that bind its members to one another. The effects of the contemporary world that most strongly affect the moral cohesion of the family are the legal emancipation of women, influences of improved education, influences of city life, economic emancipation of women, the increase of jobs for women which cause the more frequent absence of the mother from her home, etc.

But although contemporary conditions have affected the structure, size and moral cohesion of the family, the old type of family persists in Guaratinguetá, because these conditions do not act with the same intensity on the different social classes. Historical conditions—traditionalism—favor the persistence of the large patriarchal or matriarchal family, among the descendants of the old dominating group, chiefly the large landholding families, which, at present belong economically to the middle class. These large families are still common in Guaratinguetá. They are often composed of two or three direct generations (parents, children and grandchildren) and siblings (brothers and sisters, most frequently a widowed sister and her children). Another factor, in addition to family solidarity derived from the past, which favors the persistence of the joint family, is the inheritance of old mansions which were constructed when coffee-planting was at its peak, and which often do not permit internal sub-divisions.

Of all social classes the social middle class alone has offered greater resistance to the factors that tend to impair the moral cohesion of the family. Profoundly affected by religious influences, living in the country, experiencing more intensely than the other classes the restraints imposed by local cultural standards, the middle class constitutes the bulkwark of traditionalism and past cultural standards. The external influences of the great cultural centers do not act on the younger people of this class with the same force as on persons of the same generation in the economic élite (due to the more extensive travels of these latter). They grow up in an atmosphere of cultural conservatism and are more fully saturated with the traditionalism of their parents so that they carry into the present the habits and customs of the past. They marry early, usually persons who are related to them or who belong to the traditional group. That section of the middle class which is made up of "foreigners" displays much less traditionalism because, in the past, these persons

felt themselves to be a group apart. The influence of the forces that tend to undermine the moral cohesion of the family is much stronger among them. Daughters in these families enjoy more freedom of action and use marriage often as a means of social ascent. They try to find husbands among the economically higher group, or those "newcomers" who exercise a liberal profession.

In the other two social classes the forces undermining the old moral cohesion of the family are very strong. In the upper class this is due partly to their not belonging to or not being accepted by the local traditional group and thus not being subjected to the influence of traditionalism; and partly to their making use of the opportunities of travel and direct cultural contacts with the outside. In the lower economic class the forces leading to the dissolution of the family and its moral pattern are very strong. The Negro and Mulatto have inherited the morality of the slave quarter and suffer the effects of economic conditions which condemn them to the promiscuity of the slum. The white men who descend from the foreigners who immigrated during the previous stage still suffer the effects of too short a period of accommodation to the local social forces. The descendants of the old mestizos (Indian and white, and Negro and white) were segregated in the past and still are at present. Hence the impact of local traditionalism does not weigh on them so heavily and they are in a better position to adjust to the influences of the invading cultural standards.

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TABLE I  
ECONOMIC - SOCIAL CLASSES OF GUARATINGUETA - CENSUS OF POPULATION 1766

Social Classes	Income in Cruzeiros	Agriculture		Commerce		Artisans		Public Officers		Church Officials		Total No.	Total Per Cent
		No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent		
Lowest	0	277	50.73	9	1.65	25	4.58	9	1.65	3	0.55	323	59.16
	5	-	-	-	-	-	-	-	-	-	-	-	-
	15	9	1.65	2	0.37	1	0.18	1	0.18	-	-	13	2.38
	25	23	4.21	1	0.18	1	0.18	-	-	-	-	25	4.58
50	77	14.10	1	0.18	1	0.18	-	-	-	-	-	79	14.47
Sub-Total	-	386	70.69	13	2.38	28	5.13	10	1.83	3	0.55	440	80.59
Middle	100	28	5.13	3	0.55	3	0.55	1	0.18	-	-	35	6.41
	250	26	4.76	3	0.55	3	0.55	2	0.37	2	0.37	36	6.59
	500	22	4.03	2	0.37	1	0.18	-	-	-	-	25	4.58
	Sub-Total	-	76	13.92	8	1.46	7	1.28	3	0.55	2	0.37	96
Upper	1 000	3	0.55	1	0.18	-	-	-	-	-	-	4	0.73
	2 500	2	0.37	-	-	-	-	-	-	-	-	2	0.37
	5 000	1	0.18	1	0.18	-	-	-	-	-	-	2	0.37
	10 000	* 1	0.18	-	-	-	-	* 1	0.18	-	-	1	0.18
20 000	-	-	-	1	0.18	-	-	-	-	-	-	1	0.18
Sub-Total	-	7	1.28	3	0.55	-	-	-	-	-	-	10	1.83
Total	-	469	85.90	24	4.39	35	6.41	13	2.38	5	0.91	546	100

Source: See footnote 8, above.

TABLE II  
ECONOMIC - SOCIAL CLASSES OF GUARATINGUETA - CENSUS OF POPULATION 1805

Social Classes	Income in Cruzeiros	Agriculture		Commerce		Artisans		Public Officers		Church Officials		Total	
		No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent
Lowest	0	7	0.67	3	0.29	-	-	-	-	-	-	10	0.96
	5	51	4.88	2	0.19	10	0.96	-	-	-	-	63	6.03
	15	172	16.46	15	1.43	38	3.64	2	0.19	-	-	227	21.72
	25	65	6.22	16	1.53	51	4.88	1	0.09	-	-	133	1.27
	50	107	10.24	18	1.72	31	2.97	2	0.19	-	-	158	1.51
Sub-Total	-	402	38.47	54	5.17	130	12.44	5	0.48	-	-	591	56.55
Middle	100	177	16.93	13	1.24	22	2.10	1	0.09	5	0.48	218	20.86
	250	112	10.71	3	0.29	4	0.38	3	0.29	3	0.29	125	11.96
	500	48	4.59	4	0.38	1	0.09	1	0.09	1	0.09	55	5.26
Sub-Total	-	337	32.25	20	1.91	27	2.58	5	0.48	9	0.86	398	38.09
Upper	1 000	30	2.87	1	0.09	1	0.09	1	0.09	1	0.09	34	3.25
	2 500	9	0.86	2	0.19	-	-	-	-	-	-	11	1.05
	5 000	4	0.38	-	-	-	-	-	-	-	-	4	0.38
	10 000	6	0.57	-	-	-	-	-	-	-	-	6	0.57
	20 000	1	0.09	-	-	-	-	-	-	-	-	1	0.09
Sub-Total	-	50	4.78	3	0.29	1	0.09	1	0.09	1	0.09	56	5.35
Total	-	789	75.50	77	7.36	158	15.11	11	1.05	10	0.96	1 045	100

Source: DASSP Levantamento da Populacao, fasc. 52.

TABLE III  
ECONOMIC - SOCIAL CLASSES OF GUARATINGUETA - CENSUS OF POPULATION 1840

Social Classes	Income in Cruzeiros		Agriculture No.	Per Cent	Commerce No.	Per Cent	Artisans No.	Per Cent	Public Officers No.	Per Cent	Liberal Profession No.	Per Cent	Total No.	Per Cent
	1775	1840												
Lower	0	0	77	5.66	-	1	0.07	-	-	-	-	-	78	5.73
	5	6	31	2.28	3	0.22	32	2.35	-	-	1	0.07	67	4.92
	15	19	109	8.01	9	0.66	35	2.57	2	0.15	-	-	155	11.39
	25	32	265	19.47	19	1.39	43	3.16	2	0.15	3	0.22	332	24.39
Sub-Total	50	65	173	12.71	22	1.62	41	3.01	7	0.51	3	0.22	246	18.07
	-	-	655	48.13	53	3.89	152	11.17	11	0.81	7	0.51	878	64.51
Middle	100	130	142	10.43	12	0.88	24	1.76	3	0.22	4	0.29	185	13.59
	250	325	116	8.52	23	1.69	5	0.37	1	0.07	5	0.37	150	11.02
	500	650	75	5.51	6	0.44	2	0.15	-	-	5	0.37	88	6.46
Sub-Total	-	-	333	24.47	41	3.01	31	2.28	4	0.29	14	1.03	423	31.08
Upper	1 000	1 300	22	1.62	6	0.44	-	-	-	-	2	0.15	30	2.20
	2 500	3 250	12	0.88	4	0.29	-	-	-	-	-	-	16	1.18
	5 000	6 500	5	0.37	2	0.15	-	-	-	-	-	-	7	0.51
	10 000	13 000	3	0.22	2	0.15	-	-	-	-	-	-	5	0.37
	20 000	26 000	1	0.07	-	-	-	-	-	-	-	-	1	0.07
	23 076	30 000	1	0.07	-	-	-	-	-	-	-	-	1	0.07
Sub-Total	-	-	44	3.23	14	1.03	-	-	-	-	2	0.15	60	4.41
Total	-	-	1 032	75.83	108	7.93	183	13.44	15	1.10	23	1.69	1 361	100

Source: DASSP, *Levantamento da População, fasc. 55.*

TABLE IV  
ECONOMIC - SOCIAL CLASSES OF GUARATINGUETA - CENSUS OF POPULATION 1898

Social Classes	Income in Cruzeiros	No.	Agriculture	Commerce		Industry	Public Officers	Liberal Professions	Total	
				No.	Per Cent				No.	Per Cent
Lower	5	21	-	-	-	67	1.12	-	-	-
	15	65	-	-	-	67	1.12	-	67	1.12
	25	109	-	5	0.08	135	2.27	3	0.05	-
	50	218	-	23	0.39	104	1.75	6	0.10	-
	100	437	2 220	37.27	68	1.14	903	15.16	39	0.65
Sub-Total	-	2 220	37.27	96	1.61	1 209	20.30	48	0.80	7
Middle	250	1 049	390	6.55	79	1.33	167	2.80	8	0.13
	500	2 189	371	6.23	97	1.63	115	1.93	-	1
	1 000	4 387	111	1.86	123	2.06	-	-	-	0.27
	2 500	10 495	381	6.40	16	0.27	-	-	-	234
	5 000	21 890	189	3.17	2	0.03	-	-	-	397
Sub-Total	-	1 442	24.21	317	5.32	282	4.73	8	0.13	37
Upper	10 000	43 870	256	4.30	-	-	-	-	-	256
	20 000	87 560	26	0.44	-	-	-	-	-	26
	30 000	131 340	5	0.08	-	-	-	-	-	5
	50 000	218 900	2	0.03	-	-	-	-	-	2
	79 000	346 300	1	0.02	-	-	-	-	-	1
Sub-Total	-	290	4.87	-	-	-	-	-	-	290
Total	-	3 952	66.35	413	6.93	1 491	25.03	56	0.94	44
									0.74	5 956
										100

Sources: City Council of Guaratingueta, Industrial and Occupational Tax Register, and Register of Highway Taxes; Annario de Guaratingueta, 1904.

TABLE V  
ECOLOGICAL AREAS AND ECONOMIC - SOCIAL CLASSES OF GUARANTINGUETÁ 1898-1940

Social Classes	Income in Cruzeiros*		Ecological Areas - 1898				Ecological Areas - 1940				Ecological Areas - 1940				
	1775	1898	No.	Per Cent	Urban	Total	No.	Per Cent	1940	No.	Per Cent	Rural	Urban	Total	Total Total
Lower	0	0	-	-	-	-	0	-	-	-	-	-	-	-	-
	5	21	-	-	67	1.12	67	1.12	101	-	-	69	0.70	69	0.70
	15	65	-	-	143	2.40	143	2.40	304	-	-	373	3.80	373	3.80
	25	108	-	-	133	2.23	133	2.23	508	140	1.42	1 241	12.63	1 381	14.05
	50	218	-	-	37.27	1.017	17.08	3.237	1 011	3 120	31.75	978	9.95	4 098	41.71
Middle	100	437	2 200	37.27	1 017	11.42	54.35	2 032	1 222	12.44	1 568	15.96	2 790	28.40	
	250	1 049	380	6.55	280	4.87	680	11.42	5 080	202	2.05	228	2.32	430	4.38
	500	2 180	371	6.23	213	3.59	584	9.81	10 160	145	1.47	159	1.62	304	3.09
	1 000	4 387	111	1.86	123	2.07	234	3.93	20 320	97	0.98	62	0.63	159	1.62
	2 500	10 495	381	6.40	16	0.27	387	6.67	50 800	93	0.95	46	0.47	139	1.41
Upper	5 000	21 890	189	3.17	2	0.03	191	3.20	101 160	42	0.43	10	0.10	52	0.53
	10 000	43 780	256	4.30	-	256	4.30	203 200	11	0.11	6	0.06	17	0.17	
	20 000	87 560	26	0.44	-	26	0.44	406 400	2	0.02	2	0.02	4	0.04	
	30 000	131 340	5	0.08	-	5	0.08	609 000	-	-	2	0.02	2	0.02	
	50 000	218 900	2	0.03	-	2	0.03	1 011 000	-	-	1	0.01	1	0.01	
Total	70 000	306 400	-	-	-	-	-	1 422 000	-	-	2	0.02	2	0.02	
	100 000	437 800	1	0.02	-	1	0.02	2 032 000	-	-	3	0.03	3	0.03	
	118 000	516 604	-	-	-	-	-	2 400 000	-	-	1	0.01	1	0.01	
	-	3 952	66.35	2 004	33.65	5 956	100	Total	5 074	51.64	4 751	48.36	9 825	100	

Sources: Same as Tables I - IV.

\*Note: The value of the cruzeiro in 1775, 1898, and 1940 differs in proportion of the gold parity of the cruzeiro at each date. The value of the cruzeiro in 1775 is assumed as base, and the columns for 1898 and 1940 show the related values of the cruzeiro at these later dates, exhibiting the progressive depreciation of the cruzeiro in terms of gold. The horizontal double lines separate the classes from one another.

TABLE VI  
ECONOMIC - SOCIAL CLASSES OF GUARANTINGUETA - CENSUS OF POPULATION 1840

Social Classes	Income in Cruzeiros	1775	1940	Agriculture		Commerce		Industry		Public Officers		Liberal Professions		Total	
				No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent
Lower	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-
	5	101	-	-	-	-	-	69	0.70	-	-	-	-	69	0.70
	15	304	-	-	13	0.13	360	3.66	-	-	-	-	-	373	3.79
	25	508	140	1.42	267	2.72	918	9.34	45	0.46	11	0.11	1 381	14.05	
	50	1 011	3 120	31.76	371	3.78	467	4.75	76	0.77	64	0.65	4 098	41.71	
	75	1 524	1 091	11.10	417	4.24	236	2.40	88	0.89	124	1.26	1 956	18.91	
	100	2 032	1 311	1.33	255	2.60	350	3.56	45	0.46	53	0.54	834	8.49	
Sub-Total	-	250	5 080	202	2.06	80	0.81	67	0.68	54	0.55	27	0.26	430	4.36
Middle	500	10 160	1 45	1.47	60	0.61	13	0.13	69	0.70	17	0.17	304	3.09	
	1 000	20 320	97	0.99	35	0.36	7	0.07	17	0.17	3	0.03	159	1.61	
	2 500	50 800	93	0.95	28	0.28	13	0.13	3	0.03	2	0.02	1 339	1.41	
	5 000	101 160	42	0.43	6	0.06	3	0.03	-	-	1	0.01	52	0.53	
	7 500	152 400	10	0.10	-	-	1	0.01	-	-	-	-	11	0.11	
	10 000	203 200	1	0.01	2	0.02	3	0.03	-	-	-	-	6	0.06	
Sub-Total	-	-	388	3.95	131	1.33	40	0.40	89	0.90	23	0.23	671	6.82	
	20 000	406 400	2	0.02	-	-	2	0.02	-	-	-	-	4	0.04	
	30 000	609 600	-	-	-	-	2	0.02	-	-	-	-	2	0.02	
	50 000	1 011 600	-	-	-	-	1	0.01	-	-	-	-	1	0.01	
	70 000	1 422 400	-	-	1	0.01	1	0.01	-	-	-	-	2	0.02	
	100 000	2 032 000	-	-	-	-	3	0.03	-	-	-	-	3	0.03	
	118 000	2 400 000	-	-	1	0.01	-	-	-	-	-	-	1	0.01	
Sub-Total	-	-	2	0.02	2	0.02	9	0.09	-	-	-	-	13	0.13	
Total	5 074	51 64	1 536	15.63	2 516	25.61	397	4.04	302	3.07	9 825	100			

Sources: See footnote 34 above.

## SOME REFLECTIONS ON RATIONAL POLICY FOR ECONOMIC DEVELOPMENT IN UNDERDEVELOPED AREAS

### I

The problem of economic development in underdeveloped areas is not a new one, but one which has assumed increasing significance in the framework of world affairs in the post-war era.<sup>(1)</sup> The tendency for this question to enter into discussion in most international conferences acknowledges a recognition of this fact. These discussions have not only brought about a realization of the complex configuration of the problem but have also focused attention on the realities of the task at hand for the policy-maker. In the immediate post-war years the expectations regarding the possibility of rapid development were very high. Thinking on the subject did not for the most part differentiate between aspirations and actual conditions. This simplification was given sanction by analysis of the problem located primarily in a single discipline. While such analysis is important in itself, it does not provide adequate guidance to the policy-maker in a multi-value society.

With the assistance of hindsight one is left incredulous at the optimism implicit in the early post-war planning for economic development in underdeveloped areas. Today, after nearly seven years of intellectual and practical effort in this field the feeling is being crystalized that the process of development must necessarily be slower than was originally anticipated. This, however, must not be interpreted as striking a note of pessimism on development possibilities. It merely means that this new understanding of the nature of the problem, along with the heightening sense of immediacy for some economic development in these countries, necessitates the re-evaluation of both, the objectives and all the available instrumentalities for facilitating this process.

### II

To the policy maker the process of development presents a series of problems stretching out into the future. Some of the problems are short range, some are long range, but they necessitate continuous decisions on his part. No longer can chance be placed on the automatic functioning of the economy in response to self operating natural laws. The automatic functioning of the economic model is in reality supplemented in varying degrees by conscious directives from a centralized body. There is probably no important country in the world today which does not consciously set out to achieve full employment and hence attempt to control its economy to some degree. It is natural for the policy maker in exercising this control to aspire to rational decisions. Rationality connotes a conscious adjustment of means to ends, with

(1) Economic development has been variously defined in terms of industrialization or growth in the economy resulting in an increase of national income. Industrialization is too specific a term and does not cover the alternatives available to the developing country. The concept of growth, however, implies a uniform process and tends to ignore the fact that the reverse is true in certain areas of the economy. Hence here, the concept is broadened in terms of the long range secular changes that take place in the economy of a country where it is attempting to raise the per capita income of the people.

clarity of desired ends, a knowledge of all the available alternative means to achieve these ends, and finally a realization of the consequences of choosing between the alternative means available. While this is the legitimate aspiration of the policy maker, rarely is it possible to achieve optimum rationality in the process of economic development.

The absence of an adequate intellectual or theoretical framework in which problems of economic development in underdeveloped areas could be thought through is a great deterrent to rational policy. The existing body of classical and Keynesian economic theory have serious shortcomings as a guide to policy makers in underdeveloped areas. The assumptions made in these theories about human behavior, the motive forces for human action and the valuational framework in which these responses occurred were a reflection of what these theorists thought was implicit in the societies from which it had been abstracted. When the assumptions on motivation are different this model is not directly applicable. This is a general tendency inherent in the nature of theory, that it is unsuitable for practical application unless it is modified to suit the realities of the specific context in which it is being used. Thus it is necessary to further extend or correct the existing intellectual economic framework in terms of the other values in the new problem area, which may also be rational, but in terms of other ends.

### III

If the policy maker in an underdeveloped area could pursue economic development to the exclusion of all other values of the society, not only would it be easier to formulate an intellectual framework, but the whole process of development would be vastly simpler. In reality the problem is far more complex as the policy maker has to respond to the non-economic demands of the society too. His problem is further complicated by the framework of world political relations in which his society is attempting to further economic development.

In the early post-war years part of the high expectations on development possibilities was based on the assumption that the world political climate would continue to be favorable to the development aspirations in underdeveloped areas. This was implicit in the statement of assistance from more developed countries in President Truman's Point Four program, in suggestions from various United Nations organizations and the setting up of the International Bank for Reconstruction and Development. However, as world political relations deteriorated, current political realities resulted in increased restriction on mobility of factors of production and a diversion of a large part of the resources of more developed countries, which may otherwise have been available for assistance to underdeveloped areas, to the more immediate demands of national defense and collective security. Thus the value of assisting underdeveloped countries to develop took secondary importance in the hierarchy of values in the well developed countries. While this was a natural set back to development possibilities insofar as it reduced the total resources available to these countries, there were other factors too which operated within the developing country which made for a modification of the earlier expectations as to development.

In the domestic sphere the demand for development was not uniform, nor were the objectives always clear. Even if world conditions permitted a greater mobility and availability of factors of production, it was found that as development proceeds the attitudes of the politically effective groups within the coun-

try become sharply defined as to goals of development. The demand for development by these groups comes from different sources. Cyclical economic fluctuations, and the resulting income instability, especially in the early 1930's, called for the insulation of raw material producing areas from depression abroad. Later in the decade, the strong wave of nationalism and the granting of political freedom to former colonial territories in Asia impelled the new governments to establish themselves on an economically independent footing, with a view to safeguarding their political positions at home and fostering it on the international arena. A more potent demand than national power and prestige arises from a consciousness of the peoples of countries designated as underdeveloped of the sharp discrepancy in their standards of living and those of the more developed countries. Increasing communications and growing labor organizations give effect to this awareness, and reinforce the realization that these conditions are not immutable. If these demands existed individually the problem would be minimized. However, they co-exist and claim the attention of the policy maker. Policies which attempt to satisfy all these demands would tend to be in conflict. An attempt to raise the standard of living through specialization and international trade, would conflict with the attempt to balance the economy and increase its self-sufficiency. Both these sets of policies may be at variance with policies attempting to build the war-making potential of the country. Then again the existing aristocracy might orient development with a view to maintaining their position of prestige at home.

This must not be interpreted to mean that all the policies are mutually exclusive. However, it is important to differentiate the drives and attitudes upon which members of the various leadership groups, whether they be aristocratic, government, business or labor elites, view the nature and function of the development process. Otherwise the course of economic development becomes haphazard. The pressures and pulls in various directions soon tend to hamper and distort the process. But, while recognizing the kind of value choices that the policy maker has to reconcile in orienting development to meet these ends, it is necessary to subsume these values under the overall goal of development, i.e., an increase of per capita income. This reasoning only simplifies the structure of value conflicts for analytic purposes.

While this assumption narrows the objectives of economic development to a single measurable goal, the policy maker intent on pushing a development program within a country has further difficulties confronting him. He has also to deal with the whole range of the more immediate political and economic problems that arise. These generate their own priorities for solution and call upon him to exercise a rational choice from available means. These problems include stabilizing new governments, balancing a country's payments, inflation and a series of other problems created by the historical circumstances immediately preceding embarkation of a program for stimulating economic growth in the country.

Finally it is being recognized that economic development is not taking place in a vacuum, but in an established cultural matrix, creating another set of value conflicts and resistances. When this is added to the difficulties already mentioned, it will be realized that the task of fostering a unified program of development does present a problem of no small magnitude to the policy makers in these underdeveloped areas. In a totalitarian political system the existence of these conflicting values does not present as great a problem in clarifying basic purposes as it does in a democratic society, because the conflicts can be ironed out at the will of the dictator. One of the central

problems of a democratic political system turns upon the question of how the policy maker can bring to bear upon his decisions sufficient rationality to achieve his basic purposes. It may be thought that there is no field of policy in which this problem is greater than in economic development, where the basic purposes themselves are not always very clear. On the assumption that these basic purposes must necessarily come out of an understanding of the context in which development is taking place, the following analysis attempts to spell out some aspects of the conflict between economic, nationality, and cultural values, which the policy maker is faced with.

#### IV

While considerable thought has been expended in recent years in attempting solutions to the numerous immediate problems confronting developing countries, very little attention has been placed on the reality that development takes place in an established cultural pattern. The process of culture change that is set in motion during economic development tends for most part to be ignored. When it is recognized, it is merely hoped that time will bring about the necessary adjustments.

Taking any underdeveloped area whose available resources are known, it is possible for an economist to indicate a rational scheme of development for any given rate of real savings, plus the import surplus. The term rational is used here to describe an economic system motivated not by traditional attitudes and customs, but by a conscious and systematic adjustment of economic means to the attainment of the objective of increasing national income per capita. But, the process of development is not merely a question of translating this economic rationality into policy terms. While the value patterns in most cultures do include the rational allocation of resources and economic efficiency as ends, there are other values which the policy maker cannot ignore. A policy that is economically feasible may not be politically possible. The achievement of the goal of economic development may be at variance with traditional attitudes, the accepted scheme of social ethics and religious customs. The difficulties involved in attempting to reconcile economic rationality with political aims and psychocultural conditions explain one of the complexities of the process of development. It is imperative that these differing values be adjusted not only to serve the higher rationality embedded in the overall social dynamics of any culture, but also that more realistic policy could be formulated to hasten the pace of development. The adjustment between these conflicting values would also determine the smoothness of transition and the stability of the eventual dynamic equilibrium.

It must be noted here, however, that every culture is in a constant state of change. Malinowski (2) defines the dynamics of culture change as "the process by which the existing order of society—its organisation, beliefs and knowledge, tools and consumer goods—is more or less rapidly transformed. Changes may be induced either by factors and forces of spontaneous initiative and growth, or by contact of two different cultures. The result in the first instance is a process of independent evolution; in the second that which is usually called diffusion." The changes brought about in the course of economic development are induced by both sources. The problem is generally caused by rapidity of change. Too rapid change causes the old integration of the cultural pattern to break without permitting gradual reintegration. However, it must be remem-

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(2) B. Malinowski, The Dynamics of Culture Change. (New Haven. 1945.)

bered that culture is a socio-psychological phenomena. As such, on the impact of change, the culture has a certain capacity for successfully incorporating all sorts of logical inconsistencies and value conflicts. But there is a time perspective in this. The process of integration is continuous though no ideal situation of perfect adjustment is reached because the reverse is also to a large extent true. The contact situation is seen in terms of stresses and strains, of conflicts and adjustments and of compromise and passive resistance. Some of the old institutions persist, others are modified and new ones evolve. The whole process may be further refined by the study of psychological mechanisms of selection and integration. It would also be possible to analyse in these terms why some cultures are more resistant to change than others.

## V

In order to analyse the specific impact of economic development on the culture, it is necessary to clarify the economic process that is set in motion under the circumstances. The orthodox theory of economics assumed that if the supply of factors of production and technological knowledge remained constant, the factors would be reallocated till the marginal returns of similar factors would be equal, insofar as their employment and earnings were regulated by the market mechanism. The assumption implied long-run mobility. In practice reallocation and mobility outside national boundaries occurred if at all at an imperceptibly slow pace. Even capital which was thought to be most mobile is restricted in its movement by ignorance and political instability. To the extent that some factors have migrated, however, it has permitted the development of certain areas of the world. A feature of the overall picture is the cumulative effect of development. Factors tend to migrate to areas which are already developed, because of the risk, magnitude of initial investment and slow rate of initial return in underdeveloped areas. These areas also lack effective demand which is a deterrent to development in its early stages. Finally the burden of increasing the mobility of the factors is placed on the underdevelopment areas. The demand for their product is inelastic, hence as world income increases, it creates a greater increase in demand for products of the more developed areas than for those of the underdeveloped areas. Thus, these areas do not share in the automatic process of development effected in cyclical movements.

To examine the question further from a historical standpoint, does not give any greater insights as to why underdeveloped areas continue to remain so. Such a viewpoint, in areas which have been subject to direct foreign rule or indirect control through foreign capital investments, only serves to emphasize the inherent conflicts in such a relationship. It gives little clarification to the existence of various intra-national conflicts which handicap development even after the foreign influence has been removed. To insist that it was the perpetuation of the colonial economy alone which accounts largely for the lack of development in these areas hardly answers the question.

## VI

If the lack of mobility of factors of production accounts for underdeveloped areas continuing to remain so, then it follows that the solution is in terms of increasing the mobility of the factors and allocating them more efficiently to increase production and maximize national income.

The increased mobility of factors in the process of rapid economic develop-

ment impels a change in all the variants of the culture at an unprecedented tempo and magnitude. The more highly integrated the cultural pattern, the more widespread the impact. The industrial culture of the model represents a sharp break with the existing order of society. It calls for a particular kind of rational, technically precise adaptation of means to ends. Thus the process towards an approximation to it, would meet with cultural impediments such as rigidity of the social order, religious belief and basic personality traits. This resistance is intensified by the widespread resurgence of cultural as well as political nationalism. While technological and scientific improvement is demanded, these underdeveloped countries want to be more selective in their borrowings. The revival of traditional cultural attributes are becoming symbolic of the new freedom. Attachment to traditional forms that offer security and the pleasure of familiarity is not confined only to underdeveloped areas, but in these less complex societies this phenomenon is more pronounced. These societies characterized in the main by self-sufficient agricultural units, highly integrated communities, well-defined social roles and status, are naturally resistant to change.

An especially striking example is found in India, where the caste system resulted in a rigid definition of status, types of occupation and levels of consumption that are permitted to each stratum. Though the system is breaking down, caste orientation is still a considerable barrier to an acceptance of the more flexible standards of industrial life. But the reverse is also true. As there is increased mobility, the caste stratification tends to disintegrate faster. It is significant too that in India, industry obtained its first recruits from groups who traditionally had nothing to lose, the "untouchables" and lower caste groups.

The central problem of attempting to reconcile traditional security and economic change is not a new one. The question stated more specifically is whether there can be rapid economic development in an underdeveloped country where the elite is a closed elite, with standards of security which do not easily make them willing to undergo the change with the various transitional difficulties that are involved. This phenomenon is stated in the nature of an observed result rather than a necessary correlation. It must not be interpreted to mean that no change is possible nor that the value conflicts that arise are irreconcilable.

Max Weber's thesis in "The Protestant Ethic and the Spirit of Capitalism" indicates insights to the contrary.(3) Weber attempts to analyze the psychological conditions which made possible the development of a capitalist civilization. Though, till recently capitalism was very much accepted, earlier it was violently resisted. It involved the adoption of a pattern of economic behaviour which was sharply at variance "with venerable conventions, with the accepted scheme of social ethics and with the laws both of this church and of most European states." Weber sees in Calvinist theology the influence which nerved some European countries to break with tradition, and the source from which they derived the principles to replace it. It must be stated that Weber, in confining himself to the part that this religious movement played in facilitating the growth of the new type of civilization, is careful not to underestimate the other influences that contributed to the process. It is also arguable that instead of Calvinism producing the spirit of capitalism, both phenomena

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(3) Max Weber, The Protestant Ethic and the Spirit of Capitalism. (London. 1948.)

might well be regarded as different effects of changes in economic organization and the social structure.

In England, where capitalism came gradually, as R. H. Tawney maintains, the significance of capitalism as a distinct phase of social development has not been readily accepted.<sup>(4)</sup> The culture change was affected so imperceptibly, unlike on the continent where the change was more rapid. In the latter context the validity of Weber's thesis is more clearly borne out. In Asiatic countries, where the site on which the modern economic system is to be erected, is being levelled by sudden cataclysm, countries are passing in fifty years through development which took two hundred in England. In addition, not only are some of the circumstances that tended to mitigate the difficulties of this transition in the earlier period lacking today, but these countries are also faced with other problems such as overpopulation, general world instability which only tend to intensify these difficulties.

## VII

To summarize the argument thus far: conditions in underdeveloped countries and world political conditions call for rapid economic development in the underdeveloped areas. The process of economic development seeks to increase the per capita income of the people. The increased mobility of factors of production that is set in motion in this process has an impact on the existing political and social structure of the underdeveloped country, resulting in a series of value conflicts. The necessity to substitute rational action for traditional behaviour in certain spheres of activity creates resistances. If the proper political structure existed, the value of development could be enforced to the exclusion of all other social or political considerations. But this would cause instability in most other variants of the culture. If change is imposed too rapidly and the essential integration of the culture is destroyed there is always the danger that new problems are created which may be too high a price to pay for rapid development.

It appears then that there is no escape from the rule that slow and gradual transformation can achieve the change. But circumstances force one to have a time perspective on development. It seems possible, however, to increase the tempo of gradual adjustment. It may be possible to foster a controlled culture change. Here only values significant to economic development are changed, the other values being maintained or modified very little. As was indicated earlier every culture places some emphasis on purely economic values. Thus, the introduction of some values significant to development may not be foreign to nor incompatible with the culture. Hence, in order to have as rapid development as possible, while still maintaining the basic integration of the culture in which development takes place, policies must be formulated within the framework of the cultural and psychological preferences of the people concerned.

This reasoning generally holds true in formulating policies in any problem area of development. This must not be interpreted to mean, however, that all the existing elements of a culture must be preserved at all costs. In some instances it may be desirable to consciously change some element of the existing cultural pattern. The normal dynamism of changing culture too would take care of the other elements in the culture, which under the new circumstances

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(4) R. H. Tawney, Religion and the Rise of Capitalism. (New York. 1926.)

serve no useful function. Thus this latter argument may modify but not invalidate the above thesis.

### VIII

The problem area of financing economic development is used to exemplify the concept outlined here.

Economic development in underdevelopment areas may be financed by different methods. In general, the proposition holds true that these countries should finance at least a substantial part of their programs from domestic sources. This does not mean that fullest advantage should not be taken of any foreign resources that may be available. However, even if foreign finance is used in the long run repayment must come through domestic savings, and reflected in the balance of payments.

It is a truism to say that in order to mobilize savings, such savings must first be available. In underdeveloped areas though it is generally difficult to increase the volume of current domestic saving due to low per capita income, it is true too that a certain portion of current income in certain sectors may be diverted to development needs. Even if currently available savings are limited, it can be assumed that as development proceeds, a part of the increase in income may be mobilized to finance development. The problem is one of postponement of consumption and making the savings available in a form that may be mobilized for investment in development. This assumes that a large part of income that is not utilized for the satisfaction of immediate physical needs of the people, does not contribute directly to aggregate investment in the economy. This potential saving may be idle in hoards or be expended in a fashion whose effect does not assist in achieving the economically measurable goals of development. In certain underdeveloped countries a part of this unproductive savings have been offset by the expansion of credit, but this method of finance has the disadvantage that it may set in motion inflationary forces, which could not be stabilized at a desired level. Further if there is a change in the savings habits of the people this policy is rendered unsound.

Hence it seems desirable in underdeveloped areas to encourage savings in a form that can be directly mobilized to finance development needs.

Efforts must therefore be made to locate the significant political, cultural and psychological factors too which create obstacles to direct mobilization of the saving. Then a particular policy towards mobilization of savings could be formulated within the framework of these savers' preferences. As a result of the variety of factors that may have to be taken into consideration, it may be that any one policy alone may not produce the expected goal. Thus a combination of policies may have to be tried within a national entity to take care of sectional and regional variations in the psycho-cultural preference of the people in a given country.

In most well-developed countries, to the extent that savings are available and the desire to save exists, the postal savings system is used as an effective instrument for mobilizing the small savings of the people. No doubt the safety, liquidity, accessibility and simplicity of the system, not to mention the yield on such deposits were the significant factors that assisted this institution in its function. In most underdeveloped countries in Asia the general conclusion is borne out that although postal institutions had succeeded in collecting savings to some extent, they had not been as successful as was anticipated.

Japan, however, was one of few countries in the area that was able to claim a greater measure of success for this institution. An examination of this claim indicates that there were some significant elements in the Japanese context, apart from the purely economic reason, namely a higher per capita income, that contributed to his measure of success. The Japanese are thrifty "by nature." This cultural characteristic which is probably inherent to some degree in most cultures, is of prime importance in the Japanese culture. There are various elements which encourage the Japanese to be provident for the future. Of course in the rice era, when rice was the medium of exchange, saving was not extensively practised by the people, because the element that was saved was perishable. In the era of metal money it was possible to put aside that part of their current earnings which was not currently consumed. The metal money was capable of being preserved without any depreciation of value. In such a context where thrift was a predominant value of the culture the postal savings institutions could thrive and successfully mobilize small savings.

In India, on the other hand, the spiritual outlook of the people and their fatalistic approach to problems has not created in the culture a feeling of the necessity for being economically provident for the future. The joint family organization of Hindu society provided an element of economic and psychological security, which further lessened the necessity for savings out of current production for future needs. The caste system, apart from its other disadvantages, provided a large measure of economic and psychological security to the member, within his caste. To say that in India these factors did not encourage thrift as a prime value in the culture is true. However, to attribute the failure of the purely institutional approach to the mobilization of small savings in great quantities in India would be over-emphasizing these cultural factors. In certain sectors of the Indian economy the extremely low per capita income in itself left very little surplus income available for savings. Where income levels are low and the cultural factors dominant, the force of the ordinary incentives to save have been counteracted. Further reasons such as standardization and lack of personal relations in this institutional approach may have contributed to a lack of confidence in the saver, who was used to a more personal relationship with the village goldsmith.

On the other hand in certain urban areas where incomes are higher, in the form of money, and where the social factors were less predominant a larger measure of success is claimed for the institutional approach to mobilization of savings. This serves to emphasize the fact that different policies have to be formulated to meet the sectional variations in cultural patterns. A further refinement of this is that existing policies must periodically be modified to meet the demands of the dynamic culture change. In the last two decades fundamental changes have taken place in the Indian society which create new attitudes and new behaviour responses. As a result, a policy which was effective twenty years ago may no longer serve the same goal today. Thus a new policy may have to be formulated. This must not be interpreted to mean that the policies themselves must not attempt to influence cultural patterns and that they must always follow the culture change. In some cases, it may be highly desirable to change a particular cultural attribute in the interest of a more desirable goal. This is always permissible provided the price of any resulting cultural disintegration is not too high.

In India too a certain amount of uneconomic spending among certain sections of the people may be attributable to traditional and ceremonial necessities in the culture. Here again while it is possible to argue that a change in

outlook may be desirable so as to permit this income to be mobilized for development purposes one has to be cautious about consequences. Where religion plays such an important part in a culture and where certain ceremonial observations give certain psychological satisfactions to the individual, it is not always easy to evaluate the consequences of a change.

A breakdown of significant cultural values would indicate that not all values in a culture are incompatible with the goals of development or have to be changed to achieve a particular end in economic development. In attempting to mobilize domestic saving, certain positive values could be located in culture, to indicate the saver's preferences. Working along with these positive preferences would considerably increase the chances of mobilizing the requisite saving. At the same time it would not create the necessity for a change in the existing value structure.

If it is the saver's desire for security, from insolvency and personal risk, it would seem advisable not to attempt financing the development program through inflationary methods, since such methods tend to take away a portion of the real value of their savings, unless it is held in such forms as gold and foreign exchange. If hoarding in the form of gold or other precious metals was the saver's preference, it may be possible to mobilize these savings through issue of gold certificates. The desire for real estate speculation in upper income groups in underdeveloped areas may be countered by the sale of government bonds. In several countries the prevalence of high usurious rates of interest diverts funds to money lending. This is a serious hindrance to mobilization of saving and productive investment. Where co-operatives and postal savings institutions are inadequate and where credit is secured by pledging pawns, state pawnshops have been tried. Indonesia is a case in point. It must be borne in mind that these generalizations would have to be translated into more specific policy.

## IX

This list may be expanded but is sufficient to indicate the possibility of working within the cultural context. Each country would select that policy or a combination of policies which would be best suited for mobilization of savings in that country, refining the policy further to accommodate particular classes of potential savers. It is not always necessary for new institutions to be set up either. A closer examination of some existing institution may indicate the possibility of extending some of its functions or entrusting it with an additional function. Thus the familiarity with a particular institution may be capitalized on to further this new goal of mobilizing savings. The specific policies would be modified not only in accordance with cultural pattern, but also in relation to the stage of development.

It is necessary to emphasize here the distinction between cultural patterns and the actual behaviour of a society's members. The behaviour itself is more flexible than the patterns which influence it. It can be adjusted both to the pattern and the actual situation in which the individual finds himself. Ralph Linton(5) argues that behaviour patterns are actually the easiest of culture elements to modify and most culture change begins with them. This is no doubt based on the assumption of the plasticity of human nature and the dynamism of culture change.

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(5) Ralph Linton, The Study of Man. (New York and London. 1936.)

It is also possible to envisage, as development proceeds, as there is spread of education, as new thoughts and institutions are introduced, as there is a linking of village with town and even as new economic necessities arise, that the necessary attitudes and behaviour patterns would be established. But there is always the warning of the tenacity of changing custom. In the reintegration of cultural values, which is the social counterpart of political nationalism, it may be possible to locate the adjustment of what now appears to be an irreconcilable ambivalence, in the conflict between economic rationality and cultural values during the course of economic development. But the need to have a time perspective on development rules out this dependence on time alone, and calls for a more positive attempt to gradually bring about the reconciliation.

The challenge to the social scientist is to indicate the limits of manipulability within which the policy maker can operate. But recognizing that the policy maker has to continue to make decisions even while the intellectual effort to define these limits are progressing, the social scientist calls on him for a continuous, rational and piecemeal adjustment to the problem of economic development of underdeveloped areas.

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**THE GEZIRA SCHEME IN THE SUDAN AND THE RUSSIAN  
KOLKHOZ: A COMPARISON OF TWO EXPERIMENTS**

**II. THE KOLKHOZ**

**1. Development**

The early history of collective farming in Russia did not foreshadow many signs of its later big development. There was, moreover, not very much interest shown in it by Soviet authorities as their attention was mainly directed to industrial reforms. Of course they were fully in sympathy with the movement, but not until more than ten years after the revolution did the "collectivization drive" (as it is usually called) begin with any great vigour. At that time there existed three kinds of collective farms: the toz (the first letters of the Russian words for "association for collective cultivation of the land"), the commune and the artel. The first was in fact a rural co-operative, in which each farmer kept his own land and its yield, while the second type was usually set up by people who had moved into the country from the cities. Since these people had no hereditary bond with a particular plot of land they formed wholly collective farms, lived in common houses and cultivated the soil as one single farm. Finally, the artels held a position between the toz and the commune: the land, heavy implements, machinery, barns and horses were collective property, but the farmers lived in separate houses and the yield was divided.

Although the government gave important advantages to the members of these collective farms, the number of farmers who joined them was not very large (3.9 per cent) and at the time, the toz, the least collectivized type was by far the most popular: 60 per cent of all collective farms as against only 6 per cent communes and 34 per cent artels in 1929. (88)

Although joining a kolkhoz was until then voluntary, after the decree of February 1, 1930 collectivization was practically compulsory and Yugow remarks: "The government accomplished the task by ruthless coercion." (p. 134) There were political and economic reasons for this change of policy: the New Economic Policy (N.E.P.) had been unsatisfactory for agriculture in 1927, when the crop had been less than in previous years and at the same time it was hoped that the change to collectivization would bring the peasants under the direct influence of the régime. The rural population (127 millions) then formed about five-sixths of the total, so the political gain would be enormous. And Stalin was convinced that the collective organization of Russian agriculture would bring a much higher yield than could ever be expected from what were then mostly very small individual farms, primitive and inefficient, that were

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(88) A. Yugow, "Management of Collective Farms," Part II of G. Bienstock, S. M. Schwarz and A. Yugow, Management in Russian Industry and Agriculture, (New York, 1944). [Cited hereafter as Yugow.] Figures cited are at 128-130. In a preface, J. Marshak states that Soviet data are so inadequate, and often so contradictory that it is not possible to make a satisfactory statement of costs and proceeds of Soviet industry. (xxxi). After the war, Soviet data became even harder to obtain because of the decree June 9, 1947 forbidding the publication of "state secrets" concerning industry, agriculture, trade and traffic. Cf. S. N. Prokopovicz, Der vierte Funfjahrplan der Sovjetunion, 1946-1950, (Zurich, 1948), 5-6. [Cited henceforth as Prokopovicz II.]

cultivated in a definitely backward way. The antiquated three-field system still prevailed, wooden ploughs were used and sometimes no ploughs at all. (89) These dwarf farms had to be replaced by big agricultural enterprises, provided with all sorts of machinery and tractors, and worked with scientific methods. This, as he put it in his speech of December 1927 for the Party Congress, was the only solution for Russia's agricultural problem. (90) Originally, Stalin wanted this change to be gradual through example and conviction.

Collectivization, however, came hard and fast. Within a few years practically all the land had been collectivized. (91) It is well known that this cost many victims, both directly by deportation of kulaks and indirectly by the greatly decreased agricultural production and the loss of 55 per cent of the horses, 60 per cent of all cattle, two-thirds of the pigs and 70 per cent of all goats and sheep. The peasants preferred to kill their live-stock to seeing it disappear into a kolkhoz. But even so the poor remainder was not wholly collectivized, for the majority of the cattle, hogs, sheep and goats was still kept in private property by collective and private farmers. (92)

It is clear that this could only have a disastrous influence on agricultural production and, in fact, the first years of the 'thirties show crop failures and consequently, greatly lowered birth-rates. Many died in the winter of 1932-33. (93)

It should be understood, however, that the collectivization was officially and until now is, voluntary. Article 9 of the Soviet Constitution recognizes the existence of family enterprises which, however, are not allowed to hire labor. But those peasants who did not join a kolkhoz were denied clothes and other rations, they could not obtain seed, credit or implements and could not get tractors or machinery, help or hired labor. The kulaks, the only relatively rich farmers, were forced out as a class, and their land was confiscated, so only the very small farmers could survive, but few did and most of them joined a kolkhoz. (94)

## 2. Organization

It is quite understandable that the great speed with which simple peasants were thrown into a totally new organization did not help to make it work very well. "For years the collectivization drive was conducted without any plan, even without a clear idea as how the work in the collectives should be organ-

(89) W. Grottian, "Das Experiment der Landwirtschaftlichen Kollektivierung u. Kollektivwirtschaft in der Sowjetunion, 1929-1950," Vierteljahrshefte zur Wirtschaftsforschung (Zweiter Heft) 1950, 146. [Cited hereafter as Grottian.] Yugow, 132.

(90) Grottian, 134.

(91) In 1929 only 4.9 per cent of the cultivated area was in collective farms; in 1931 not less than 67.8 per cent; in 1935, 94.1 per cent and in 1940 it was 99.9 per cent. Yugow, 134.

(92) N. Jasny, The Socialized Agriculture of the USSR, Stanford, 1949), 324. [Cited hereafter as Jasny.]

(93) Jasny, 323.

(94) Grottian, 137, 139-140. Yugow, 134.

ised." (95) People worked as a "huge herd" on the fields. Most of the leaders were not peasants at all and had been sent from the cities, because Stalin had ordered that the kolkhozes should be organised "with a leading influence as great as possible of proletarian city elements and of proletarian and semi-proletarian ranks in the village." (96) How great the influence of city people has been appears from a statement by Stalin (1934) to the effect that 23,000 communists had been sent as leaders, 110,000 engineers, technicians and agriculturists and finally not less than 1,900,000 drivers of tractors and combines and other personnel. (97)

The Statute of 1935 gave a detailed survey of the internal organization of the kolkhoz, as it should be. The general assembly of kolkhoz-members is the highest organ. It elects a chairman and a managing board, both for two years, who are responsible to it. The board and its chairman form the executive body that consists of 5 - 9 members. The general assembly meets every fortnight, approves or amends the plan of production and the budget, regulates production quotas, etc. The general assembly elects the members of the control commission who have to report on the accounts and the acts of the board to the assembly. The management (chairman and board) are responsible for proper administration, the assignment of tasks to the members; they sell the produce and administer the deliveries to the State and the distribution to the members. They may appoint a bookkeeper or other personnel. The chairman can only be discharged by the general assembly or by judicial sentence. "It would be incorrect to say that the Statute is entirely disregarded" concludes Yugow in his description of this organization. (98) But all important decisions have been taken by prior decision of State or Party organs. First of all, the Plan. The kolkhoz has to fulfil its part according to the Gosplan, i.e., the State plan that directs all production. It can only make up its own plan within the limits of the task assigned to it. But even so the kolkhoz has not very much to decide.

There has been a continual struggle within the narrow circle of Soviet authorities as to which system should prevail: the official one that gives as much power as possible to the kolkhoz members so that they can "run their own show," or the Party view which advocates that everything should be directed from the central Party Office. There are in fact other influences besides that of the Party: the local Soviet, the agricultural inspector, the Head of the Machine Tractor Station (M.T.S.) and, finally, the kolkhoz members themselves. It would be very strange if all these different views could coincide, and this indeed, does not seem to occur very often. The Executive Committee of the District Soviet has general control of the kolkhoz, approves the production plans, settles differences with other local organizations, etc. Then there is a second State instrument of control and guidance, the M.T.S. This is the organization that provides tractors and machinery and the neces-

(95) Jasny, 7.

(96) S. N. Prokopovicz, Russlands Volkswirtschaft unter den sovjets, (Zurich, 1944), 119. [Cited hereafter as Prokopovicz I.]

(97) Grottian, 145. At that time the total number of kolkhoz-households was not quite 16 million (computed by the author from figures given in Prokopovicz I, 164.) The number of kolkhozes was then about 210,000.

(98) Grottian, 145.

sary personnel, but also has a voice in many agricultural and even political matters. The M.T.S. decides about the crop rotation, helps in the assignment of incomes, looks after administration, etc. The M.T.S. always was the palpable expression of the Government's will to mechanize; its chief was a man of great responsibility as he was in charge of the precious tractors and had to service several kolkhozes, which enabled him to compare results and to give valuable advice.

There is another State organ, the inspector of agriculture and his officials. These are usually specialists and not Party members, so it is mainly against them that the activity of local Party authorities is directed. They will not have many difficulties in dealing with the local Soviet or the M.T.S. (all being Party members). The Communist Party organs are officially responsible for the correct execution of the Gosplan. (99)

This responsibility of the Party for the work in the kolkhozes was laid down as early as 1929 and was confirmed by Stalin in 1933: "It (the Party) must now take the direction of the kolkhozes in its own hands. (100) But Stalin has warned as well against too much Party influence. He insisted "leaving all decisions to the kolkhozes themselves ... not to substitute administrative bullying and bossing for guidance, ... not to impose decisions on the kolkhozes," and the like. But in practice the Party took over firm control. (101)

This controversy still exists. The fourth Five year plan (1946-50) ensures that the Statute of the kolkhozes shall be respected and, for instance, that the selection of the chairman and board shall be done by the kolkhoz. (102) While the Soviet press many times complains that chairmen and members are appointed by the local Soviet, that the general assembly does not meet at all. The National Council on kolkhoz affairs (instituted in September 1946) among its other duties has to see that the Statute of 1935 is not violated and the kolkhozes can carry out their official duties according to their right. We read in Bolshevik, however, that now the kolkhozes have been stabilized, the Party "must take over the direction of the kolkhozes and assume the responsibility for its work." (103) And Andreyev, for more than ten years the great authority on kolkhoz affairs and appointed chairman of the Council in September 1946, had stressed (1939) the duty of the Party to take the initiative as soon as a kolkhoz failed to accomplish the "first commandment," the prescribed deliveries to the State." (104) Even the official comment on the Statute of 1935 states that the Party must have influence in the kolkhoz. (105)

So we find on the one hand the pedagogical argument, as it may be called, intended to teach the kolkhozes to run their own affairs and so to excite the

(99) Decree of the Council of People's Commissars, December 1940.  
Yugow, 152-155.

(100) In his speech of January 11, 1933, Prokopovicz I, 158-159.

(101) Yugow, 146. Cf. the speeches of March 26 and June 25, 1932, and February 2, 1935.

(102) Text of Plan in Moscow News, March 27, 1946. Cf. Art. 30 in the plan.

(103) Bolshevik, No. 16, 1947. Prokopovicz II, 86.

(104) Lazar Volin, "The Kolkhoz in the Soviet Union," Foreign Agriculture, 1947, 146-159.

(105) Prokopovicz I, 160.

interest of the members in the well-being of their own collective farm, but, on the other hand we see that State or Party immediately interfere as soon as something seems to go wrong. (106)

### 3. The position of the kolkhoz members

The question as to what is the income of the kolkhoz farmers, is not very easy to answer. They derive their income not only from the kolkhoz, but also from their "private enterprise," albeit a modest one.

The "first commandment" (curious enough this is the usual name in Soviet literature) is, as we have seen, the delivery to the State. This is settled yearly, according to the capacity of the kolkhoz, at a fixed amount of produce. It is not a percentage, so in good years it is relatively less than in a bad year. Jasny in his study on Soviet agriculture makes a survey of the way in which the gross produce of grain is distributed. (107)

Distribution of graincrops of collective farms

	1937 Per Cent	1938 Per Cent	1939 Per Cent
A. To the State			
1. Compulsory deliveries	12.2	15.0	14.3
2. Payments to M.T.S.	13.9	16.0	19.2
3. Restitution of seed loans	1.5	2.0	4.0
Total	27.6	33.0	37.5
B. Voluntary sales to the State, to co-operatives or in the free market.	4.8	5.1	4.0
C. Collective needs and reserves			
1. Seed and Reserves	16.3	18.6	18.2
2. Fodder and Reserves	12.7	13.6	13.9
3. Reserves for help to destitute people	1.1	0.08	0.8
4. Other expenses (insurances, etc.)	1.6	2.0	2.7
Total	31.7	35.0	35.6
D. Distributed among kolkhoz members according to trudodni	35.9	26.9	22.9

(106) L. Andrianow, "Strengthen democracy within collective farms," Sotsialisticheskoye Zemledeliye, January 25, 1949, cites many examples of little or no influence of the general kolkhoz assembly and abuses by chairmen. (Translation in Soviet Studies, January 1950, 281.) A continual complaint is that the chairmen are transferred too often. An inquiry in the Voronesj province in 1939 showed that not less than 40 per cent of the chairmen had moved during that year. Volin, loc. cit., 155.

(107) Jasny, 738.

These deliveries are paid for, but, according to most authors the prices paid are very low, so that these purchases could be regarded rather as a tax than as a normal sale.(108) This, however, seems correct only for grain deliveries which are, indeed, most important. The payment for technical crops (fibres and some others) are not extremely low.(109) These are essential, too, because the State takes the whole of the produce. If the *kolkhoz* workers did not receive a reasonable payment, it would be practically impossible for them to live at all, because it is their only source of income, except for what they derive from their own little plots.

The Machine Tractor Station received payment for its services (mechanical ploughing, often for cultivation, sowing and harvesting as well) in kind. The State wants every *kolkhoz* to be served by an M.T.S., and if a *kolkhoz* does not find it necessary to ask for these services, the State deliveries are increased by 15 per cent and, since 1947, by as much as 25 per cent. The amount of produce to be paid to the M.T.S. depends not only on the yield, but also on the quality of M.T.S. work; if it is not done in good time, the remuneration is less. This differentiation was only introduced in 1947 after many complaints by the *kolkhozes*. To give an idea of the amounts paid to the M.T.S. in the most important grain areas, the following table is quoted from Jasny's book, referring to a yield of 9 - 11 quintals per hectare: (110)

	timely work	delayed work
fall ploughing	108 kg.	104 kg.
two cultivations	22 kg.	17 kg.
seedling	18 kg.	14 kg.
combining	88 kg.	58 kg.
Total	236 kg.	193 kg.

(108) Jasny is very skeptical about the value obtained by the *kolkhoz* for these deliveries; prices are so low that often they are not stated (363). "The Government still pays producers about 10 kopecks per kilogram for delivered wheat while—since the fall of 1946—charging the consumer 13 roubles [1300 kopecks] for a kg. of wheat flour (probably 85% extraction) more than 100 times as much in terms of grain." (375). It should be noted that five price reductions have taken place since, each discounting between ten and thirty per cent of the price. Jasny corrected his former statement when he wrote (in the *American Economic Review*, 1950) that the state paid between 10 and 15 kopecks per kg. of grain for the 1949 harvest and sold white flour at 570 kopecks per kg. (853). The price cut of March 1, 1952, reduced this to 450 kopecks.

(109) Jasny, 687. If Jasny's figures are correct, total grain deliveries (about 10 million tons) were bought for less than 1 milliard roubles. But total payments to *kolkhozes* for all crop deliveries amounted to 6.39 milliard roubles. Crops other than grain were worth about 5.5 milliard roubles; although land devoted to technical and other non-grain crops was not quite 20 per cent of the total are cultivated by *kolkhozes* (this is according to land used in 1935, the last year for which such data were available. Prokopovicz I, 151.) If these proportions were still correct for 1938 (and they could not have changed a great deal in a few years) then the payment for non-grain crops would have been more than 20 times that for grain.

(110) Jasny, 288-292. Jasny in a special note (742-743) upon the difference

If the yield is better, the payment to the M.T.S. is more, but the proportion taken is not much higher. In any case, the share of the M.T.S. seems to be higher than it was shortly before the war, when it varied between 14 and 20 per cent.

Group B, about 5 per cent of the gross yield, is very important, because the sales in this sector are much more remunerative than the compulsory deliveries to the Government. Voluntary sales to the Government (however voluntary they may be) yield a better price and whatever can be sold at the free kolkhoz market, where there is no price control whatever, may command very high prices indeed.

One would not expect, after the repeal of the New Economic Policy, to find a free market in the Soviet Union. Yet it appeared impossible to do without it. "Actually, the kolkhoz markets represent a capitulation, both to the peasants who by the sale of a portion of their produce at exorbitant prices were getting some compensation for delivering another portion to the Government at low or token prices, and to the hungry city dwellers, who were eager to get food even at these exorbitant prices" writes Jasny. (111) That these markets still exist is proved by an article in Pravda, discussing the price reduction of March 11, 1950, through which, according to official estimates, 30 milliard roubles would be saved by the people, as the prices in co-operative shops and the kolkhoz markets will have to follow the declining trend of prices in the state operated stores. (112) The importance of these markets is easily seen from the 1938 estimate of their share in the total food turnover, being not less than 24.7 per cent. Yet, though price formation is free, access to the market is restricted to producers and consumers only. No private traders or intermediaries and speculators are allowed to interfere (Order of May 20, 1932), which, of course, compels many people to go to these markets and, as Soviet economists themselves realize, "adversity affects the labor organization of the kolkhozes." (113) Considerable price variations, even within a single district, are the inevitable result of this primitive market system, which, in fact, can only be regarded as a bow to orthodox communism.

How extraordinarily these free prices may rise is illustrated by the case of a kolkhoz, that was willing to sell 3,135 quintals of cabbage for 41,350 roubles, but "actually the board sold 1240 quintals for 129,463. (114) A further natural consequence is great price fluctuation during the year; rice going up from 7 roubles on January 23 to 12 roubles in February. During the war these markets did a brisk business. Prices soared in 1943 to 12 or 13 times the 1940 level, but had fallen again to about 5 times the 1940 level in 1945. (115)

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between crop "on the root" (since 1933, the basis for statistical calculation) and "barn crop" which is about 20 per cent less because of losses in transport, thefts, etc., makes it seem reasonable to assert that a yield of 9-11 q/ha. nets only about 8 q/ha.

(111) Jasny, 383.

(112) V. Maltchanowsky, "La Troisieme baisse des prix et la seconde re-evaluation du rouble," Information et documentation, mars 18, 1950. 9-11.

(113) P. Kagarlitski (1940) quoted in Jasny, 385.

(114) Jasny, 385, quoting a Party publication.

(115) N. Voznessensky, then President of the Gosplan in his book, War Econ-

But, as we shall see, it was not altogether a luxury for the kolkhoz peasant to have this source of income. From the above table we find that he receives from the gross produce of the farm, according to the yields, about 23 per cent in a rather bad year and 36 per cent in a year with an exceptionally good crop. Apart from that he receives his share of the money income of the kolkhoz. What does this mean to him and how is the kolkhoz income distributed among the members?

The Soviet Union has always struggled to find the correct formula for the remuneration of labor in the kolkhoz. Since 1933 the system of "trudodni" (labor days) has been followed, although not always in the same way. It can briefly be described as a method of measuring performance. Every job on the kolkhoz is graded in one of nine groups from one-half to two and one-half trudodni for one day's work, according to the kind of work. As one trudoden is assigned to "jobs of average difficulty, not requiring special qualifications and done by adult collective farmers," all other sorts of work is expressed herein: light work may be one-half or three-quarters trudodni worth, and heavier and more difficult work one and one-quarter, one and one-half, one and three-quarters or more. (116) When at the end of the agricultural season the deliveries to the State have been made, the M.T.S. has received its payment, the prescribed reserves have been made, insurance and taxes have been paid, the rest is then distributed according to the amount of trudodni, earned by every kolkhoz member. So his wage depends on three factors:

- (1) the divisible amount of produce and money
- (2) the number of days he has spent on the kolkhoz fields
- (3) the group in which his work has been graded, as his number of trudodni is the product of (2) and (3)

But the first factor is fixed. He may have worked hard and long, but if the crop is bad, the kolkhoz share will be very small, as state deliveries, seed and fodder reserves and other costs are inelastic and so in bad years the kolkhoz's share, being the remainder, is very low. That is the reason why the income derived from the kolkhoz is extremely fluctuating.

As there are many workers, the total crop depends (apart from weather conditions) on the work of all of them and, therefore, good individual performance can easily be counteracted by the poor work of others.

So the organization has been refined; bigger and smaller groups have been formed, which were supposed to work with a certain team-spirit. A "brigade," consisting of about 60 workers (men and women) got its own performance accounted for and had some reason therefore to work hard. This was all the more true for the zvено (link), consisting of 7 workers, who, of course, knew each other well and so could control their mutual performances.

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omy in the USSR. Translation of a comment on this book published in Pravda (January 3, 1948) which appears in Information et Documentation, January 31, 1948.

(116) Originally there were only seven groups varying from .5 to 2 trudodni, but since 1948 two higher groups (2.25 and 2.5 trudodni) have been introduced. M. Kraev, "The Collective Farm Labor Day," Voprossy Ekonomiki, No. 3, 1949. (Translated in Soviet Studies, Vol. I, No. 2, 161-171 and No. 3, 261-268.) It should be noted that a tractor driver earns still more, between 4 and 5 trudodni.

In order to stimulate hard work a system of premiums has been introduced for those brigades and links who surpassed the norms set by the plan by giving them a number of extra trudodni. This had, however, the disadvantage that the value of the trudodni automatically decreased and an "inflation" of the trudodni resulted. A later premium system (since 1935) offers a group that surpasses the norms the possibility of obtaining in kind, part (about 20 or 30 per cent) of the amount of produce which exceeds that prescribed in the kolkhoz plan. This sort of premium became very popular, as it was possible to sell this grain in the free kolkhoz market and so gave an extra advantage, if the amount of grain obtained from the trudodni was at least enough for the family.

On the other hand, if a zveno or brigade does not achieve the norm, a reduction is carried out. In the Sotsialisticheskoye Zemledeliye of July 13, 1949, two cases are mentioned: a link received for over-fulfilling the yield plan the following supplementary payment: 13.79 tsentners (1 tsentner = 100 kg.) of millet; 51.28 tsentners of potatoes; 2.16 tsentners of sunflower seed; 3.18 tsentners of wheat in exchange for hemp; 24.17 tsentners of rootcrops. (117) In addition the link was given 247 trudodni. To sum up, for each labor-day actually worked by the link it received 3 kilograms of grain, 6 kg. of potatoes and 1 rouble 43 kopeks in money.

On the other hand, the yield gathered by another link was below the average. The link was debited with 231 trudodni. As a result, for each labor day actually worked, the link received 1.3 kg. of grain, 2 kg. of potatoes and 1 rouble 20 kopeks in money. (118)

Suppose that each of both links consisted of 10 workers, then it is clear that the premiums are important: 138 kg. of millet, 513 kg. of potatoes, etc., would have been received per person in addition to the trudodni earnings, while the other link suffered an important reduction. Yet, in 1944 when the norms were still rather low, only 3 per cent of all kolkhoz members received a premium. (119)

The following table, derived from Prokopovicz gives an impression of the value of the trudodni: (120)

(117) Hemp, cotton and all other fiber crops are wholly taken by the State.

(118) Translation in Soviet Studies, January 1950, 279-280. It is probable that this example, published for the purpose, gives a rather high figure for the trudodni value.

(119) Jasny, 410.

(120) Prokopovicz I, 164.

Average number of trudodni per family	Grain distributed			Money distributed			Totals		
	per trudoden in kg.	per family in 100 kg.	in per cent of gross yield	per trudoden in kopeks	per family in roubles	in per cent of total amount of money	money proceeds of kolkhozes in million roubles	grain distr. million quintals	money distr. in million roubles
257	2.3	6.0	19.1	42	108	35.2	4581	89.5	1611.2
315	2.9	9.83	25.3	29	90	24.2	5675	150	1373.3
354	3	10.92	27.7	27	94	29.4	5036	171.6	1481.3
378	2.4	9.07	21.1	65	247	45.9	8880	157.2	4281.7
393	1.6	6.25	19.3	?	?	?	12460	115.3	?
438	4	17.42	30.1	85	375	47.7	14583	322.3	6956
437	2.8	12.2	26.9	109	480	52.4	17265	230	9046.8

It should be noted that potatoes, meat, vegetables, fruit, etc., in some kolkhozes distributed among the members, are not mentioned.

As regards the significance of the money income we may compare this with a table published by M. Allais: (121)

	1901	1935	1938	1940	1946	1949
Average monthly salaries in roubles	29.1	187	317	375	573	660
Index of purchasing power	100	74	146	73	37	76
The value of social services	-	28%	31%	31%	34%	34%

So the money income of the average kolkhoz worker amounted in 1935 to about  $1/2 \times R.247$  per year, and in 1938 it may have been  $1/2 \times R.480$  per year. (122) This means that his yearly money income is considerably less than the average monthly salary then earned in Russia. As the money income apparently is of no great use, the income in kind must be more substantial. So it is, but, as it is estimated that on the average one person needs 250 or 260 kg. of grain a year and a kolkhoz family consists of 4.8 persons, then it is clear that only in 1937 there was abundant food, in 1934 and 1938 there was enough or nearly so, but in the other years there must have been scarcity or even famine. (123)

(121) *Le Monde*, July 23, 1950.

(122) In 1937, there were not less than 2.649 working persons in a kolkhoz family consisting of 4.38 persons. In this case I took it, however, that there were only 2, which limits the workers to adults between 16 and 59 years of age. Jasny, 394, 692.

(123) Compare figures given by Jasny, 690 and Prokopovicz I, 164. The

Yet there is a great difference among the kolkhozes themselves and sometimes one finds income data which seem really astonishing. But in such cases the kolkhoz concerned usually will grow a special crop, for instance cotton which always commands a rather good price and guarantees moreover to the kolkhoz members the right to purchase consumer goods at a low price. Or the kolkhoz will grow vegetables and fruit that may be sold at very high prices in a nearby town. So a kolkhoz in the vicinity of Leningrad was in 1949 able to distribute per worker: 2100 kg. of potatoes, 4600 kg. of vegetables, 17 kg. of bacon, 100 kg. of fruit and R.1581 in cash. (124) The amount of money equals, as we have seen, about two and one-half months of average income in 1949 and it is clear that the quantities of produce allow a large surplus to be sold at free prices in the town. But such a kolkhoz is an exception. Therefore most kolkhoz peasants badly need an extra income and that is derived from their private little enterprise.

It is quite natural that this island of individualism in a sea of nationalization has roused many a hateful comment from "pur sang" communists. Stalin, the realist, had a very simple answer to these criticisms: if you want a mass movement of kolkhoz peasants, then you must, under prevailing conditions, promote in addition to the general interests of the kolkhozes the personal interests of the kolkhoz peasants. (125) In the Statute of 1935 it was therefore stated that a kolkhoz household may possess one-quarter to one-half hectare (according to circumstances) and 1 cow, 2 head of young cattle, 1 or 2 sows, 10 sheep or goats, furthermore poultry and 20 beehives besides. This was the rule for agricultural areas, in typically livestock areas it was a little more.

The revenue from their private field and livestock is immensely important for the peasants; they grow potatoes, vegetables, sell milk, cheese, poultry, which command a very good price. Estimates of the value of this source of income differ, but one may roughly put it at the half of the total income of the average kolkhoz peasant. (126) In 1937, the private sector of the kolkhoz production formed 21.5 per cent of the total agricultural production of the USSR according to Soviet sources. (127) This is to be explained by the high yield per ha. compared to that of the kolkhoz. R. 860 was the farmer's gross

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latter assumes that the average family consists of only 4 persons, which does not conform with Jasny's figures which seem more exact.

- (124) A. Iounine, "Problemes Economiques," La Documentation Francaise, April 11, 1950, translation from the Moskovski Bolshevik of February 2, 1950. The quantities distributed to members are exceedingly large, as the amount of potatoes and vegetables appears to make out 73 per cent of the total crop production. As the State will receive at least 12 per cent and a further 30 per cent will be necessary for seed, fodder, reserves, etc., it is not clear how so much could be distributed. The amount of money is large too, 33 per cent of the total kolkhoz revenue. Again, we could not explain this, unless the revenue has been computed by Iounine according to the official prices, while the real kolkhoz income at least was partly obtained, of course, from sales at free prices.
- (125) Stalin's speech to the second congress of exemplary kolkhoz peasants. Prokopovicz I, 152.
- (126) Jasny, 699. Yugow, 136.
- (127) Prokopovicz I, 161. The kolkhozes yielded 63 per cent, sovkhозes 9.3 per cent, and the private farmers 6.3 per cent.

revenue in 1937 as against only R. 109.2 per ha. cropped area of the kolkhoz. (128) It should be noted that in that year the average surface of the private cropped land of the kolkhoznike was 0.27 ha., while the sown surface of the kolkhozes per kolkhoz household, was 6.5 ha. (129)

The conclusion seems simple; the kolkhoz peasant, being much more interested in the results of his own plot than in those of the kolkhoz, works hard on his own land, draws fodder from the kolkhoz for his private cow and hog, but is less industrious when working on the socialized farm. It may be true, as Jasny argues, that he does enough work on the kolkhoz (212 days of the year and only 19 on his own land), but the results show that much work is spent on this private domain. This is to be explained by the efforts of the housewife and perhaps of an old father or a boy (a total of 104 days was spent on the private land), and by the fact that official holidays are not accounted for as working days, but are probably spent, in part at least, in the garden plot. (130)

There has, however, been a continuous trend in Soviet policy to increase the work on the kolkhoz and to decrease the significance of the private land. In 1939, a decree was issued demanding that every kolkhoz member should work at least 80 days on the kolkhoz fields, in 1942 this was increased to 125 days. (131) More than once the Soviet authorities had to remind the peasants that 0.5 ha. was the legal limit of their private land, as there always was a good chance of some additional land being annexed as soon as there was an opportunity. Such an opportunity presented itself, for instance, during the last war, and the Soviet press vehemently demanded that the kolkhozniki should immediately give back the stolen areas. In September 1946 a State Commission on Kolkhoz Affairs was appointed whose duty it was to restore their legal property to the kolkhozes. But if we see how many hectares have been given back, we find that only 520,000 ha. of privately held land had to be restored, which means 0.14 per cent of the total, and 5.7 per cent of the private part of the kolkhoz surface. (132) This cannot be called "abuse on a mass scale." (133)

(128) Prokopovicz I, 162 (sources not mentioned.) Prices in 1926-1927 roubles.

(129) Prokopovicz I, 152. The total surface respectively is 0.48 ha. and 19.09 ha. per household (Prokopovicz II, 69.) In the private sector, therefore, 57 per cent was sown, in the kolkhoz only 34 per cent.

(130) Jasny, 393. Yugow states that only 46 per cent of the kolkhozniki's time was spent on the kolkhoz in 1937.

(131) And 100 days in cotton and some other kolkhozes, while in areas with a very short growing season only 60 were required; after 1946, 150 and 100 days respectively,

(132) Prokopovicz II, 90, derived from Izvestia, March 7, 1937. It is true that about 4 million ha. had to be taken back from several army and soviet organizations which had, mainly in the former German occupied area, set up cultivation again.

(133) So the decree called it. Cf. Theodora Mills, "Soviet Collective Farm Decree," Foreign Agriculture, No. 4-5, 1947, 64-69. Prokopovicz II, 88-90, giving some more details thinks the severe criticisms on the kolkhoz members in the Soviet press "ein Schulbeispiel der parteikommunistischen Agitation und Propaganda."

But, on the other hand, we should not forget that especially during the war every piece of land, however small, that might be used privately, brought very important advantages. We have already seen that scarcity made prices soar, so that huge profits could be made. We can only marvel, that, in the Soviet Union, it was apparently possible to make the kinds of gains would be denied in most capitalistic countries; that people who made enormous war profits were even congratulated by the Prime Minister himself. In his speech of May 11, 1944, the People's Commissar for Finances declared: The Kolkhoz member Bardebekoff, who has subscribed (to the war-loan) for the sum of 1,286,000 roubles, has been congratulated by Comrade Stalin." (134)

The private sector, however distasteful in itself, had to be considered in those days for the State needed it badly to make ends meet. The demands for enormous army supplies and the cultivation of a much smaller agricultural area did not leave much room for the needs of the urban population. (135) Therefore, every bit of food was welcome, whatever the price.

#### 4. Recent developments

Reaction against thriving private business was inevitable. Yet the necessity of awakening more private interest in the results of the kolkhoz was clear to everybody and so the accounting system was refined by stressing the individual duties or tasks of the small sven or the even smaller sub-groups, consisting of three or four workers (who sometimes happened to be the original household members) working on the plot of land they had formerly owned. Jasny quotes from Socialist Agriculture (January, 1939, p. 65), a leading bolshevik periodical, citing examples of certain fiber-flax kolkhozy, where the "boards of the kolkhozy assigned lots of fiber-flax measuring 1.5 to 3 ha. to individual peasant families," and concludes (p. 336): "They were back where they started."

But I do not think this conclusion (that nothing had changed as compared to the pre-socialization era) is quite correct. People farming on their former land was an exception, not the rule; the style in which they worked was quite different; they could not freely dispose of the yield although they had an incentive to make the best of their crop because of the change of premiums. And finally, the spiritual climate had altogether changed.

It is not be be denied that the younger generation, not having known anything else but socialized life, feels quite differently about it than did their parents. They are open to the advice of agriculturists and to the spirit of competition that is stimulated by Soviet authorities. It means something to them to become a "Hero of Socialist Labor" or to receive the Lenin Order or some similar distinction. (136)

(134) Archives Economiques et Financieres, January 1948, 6. The inflation of the rouble should be taken into account, but it remains a very substantial sum.

(135) According to A. Savchenko-Belsky not less than 40 per cent of the grain fields were occupied by the Germans. Moscow News, May 27, 1946.

(136) Yugow, 169-170; and I. Laptev, "Competition socialiste et discipline du travail dans les kolkhozes," La documentation francaise, July 19, 1948 (translated from Pravda, June 24, 1948).

This social distinction, made more efficient still by the more individualistic system of remuneration, the possibilities for excellent workers to obtain a better job or to go to a high school and the like, was the way in which Andreyev tried to increase the production. In that system the word "nivellation" was about equal to sabotage and it definitely aimed not only at the increase of individual performance but also at the elevation of the individual as such.

This was only possible by the stress laid on the zveno but at the same time it made for a lot of administration and did not strengthen the feeling of collectivity. A Soviet author triumphantly announces as something entirely new (1947) "the trend toward the highest possible individualization in the work of the kolkhozniki." (137)

Orthodox communists felt that this was the wrong way and they succeeded in switching the political line. At the same time the attack on the private land in the kolkhoz was once more inaugurated and a new one against the zveno was launched. Arakelion, a Soviet theorist, explained in Voprosev Ekonomiki of July 1950 that the kolkhoz as such is a less mature form of socialized property, as it has some features of a co-operative. He points out that the Russian kolkhoz peasant nevertheless is much better off than his colleague in Western Europe, bound by private property to the soil. "And it is exactly because private property in land does not exist with us that the peasant does not feel that tyrannical attachment to his personal plot of ground as is experienced in the occident." (138)

The objections against the private holding seem strangely contrary to the new policy developed towards the sovkhоз-worker. The sovkhоз is a farm wholly owned and operated by the State and so lacking the features of private enterprise to be found in the kolkhoz. Now we find that the Fourth Five Year Plan (1946-1950) announces (Art. 31) that the sovkhоз workers will be guaranteed a loan for a house and a private holding of just the same size as the kolkhoz worker may have, this, as the official comment runs, to prevent the great labor turnover, usually experienced there. Having a private plot, the worker will attach himself to the sovkhоз. This measure has not yet been repealed as far as we know.

The general political line, however, seems to become more unfriendly towards private ownership in the kolkhoz, when Andreyev and his zveno policy was openly attacked in Pravda. (139) Andreyev confessed his guilt; he had quite wrongly stressed the significance of the zveno, had badly neglected the brigade that ought to be the cornerstone of the kolkhoz system. (140)

Khroutchtchev, taking over the agricultural lead from Andreyev in 1950, is now launching a new collectivization drive, in order to combine small kolkhozes and to form huge agricultural complexes of some thousands of ha., to procure better results, to lessen administrative burdens and to obtain

(137) Jasny, 337.

(138) "La propriete socialiste en USSR," translated from the Russian in La Documentation Francaise, November 16, 1950. When we say that a kolkhoz peasant has a private plot of land, it should be borne in mind that this means the private use of State land, as guaranteed in Art. 7 of the Russian Constitution.

(139) V. Maltchanowsky, loc. cit., 9-11.

(140) Pravda, February 28, 1950.

higher efficiency.(141) At the same time the mentality of the kolkhoznik should be changed. Apparently he is still too much bound to the soil, he has to be liberated, should become an "agricultural worker" like the urban industrial worker and not remain a peasant. By combining kolkhozes and forming huge living centres in the country (the "agrogorod"), by the division of labor and concentrated propaganda, it is hoped to turn the peasant mind into a businesslike farmer's mentality.(142)

There is, however, one question that remains unsolved. How is it possible to stimulate individual diligence? Formerly the zveno system gave, if not quite an adequate, at least a reasonable incentive to every worker to do his best. It was not perfect since too much depended on the results obtained, which were not under individual control, being influenced mainly by weather conditions, but at any rate it was something. Under the new system it seems impossible to apply the premium system, because the division of labor does not allow for acknowledging special results to a special group. If, for instance, the yield is high and above the norm, who should receive an extra remuneration?

So we find that there is a double tension in the kolkhoz organization: first, the struggle of State- and Party-organs against those of the kolkhoz itself. A secondary strife is to be discerned about influence within the kolkhoz; whether the power should remain with the general assembly where it ought to be, or be exercised by the chairman and/or the Board. And, in the second place, the fight of pur sang communism against the private sector in the kolkhoz economy. In 1950 the victory was going to State- and Party-power and the giant kolkhozes definitely began to endanger the private holding of the kolkhoz member.(143) Will history repeat itself? Or will it be possible to organize the big unwieldy brigades so that a top performance is obtained? Formerly it appeared impossible and that exactly was the reason why the work was subdivided into small units, done by small groups or even individuals. The premium system tried to confirm that effort. Why should that formerly rejected system of a

(141) Approximately 30 per cent of the total manpower is engaged in administration according to The Economist, January 27, 1951, 202. Volin (Foreign Agriculture, 1947, 155) found that often 20 per cent of the total number of workers were in such jobs as they were better paid.

Therefore they will certainly receive as much as thirty per cent of the total wage fund. Of course these extremely high figures are not (as such) to be found in the Soviet sources. But the great stress continuously laid upon the advantages of more efficient administration shows the significance of this side of the question. (Pavlov mentions administrative costs in a small kolkhoz amounting to 1,140 roubles per 100 ha. and, after combination, being reduced to 583 roubles). The important thing is to note what is called "administration." If all specialist and supervision work is included, together with work of watchmen and all other labor, making out the overhead cost the figures given by Volin and The Economist can not be greatly mistaken.

(142) Grottian, 155. Andre Pierre, "L'USSR au seuil du nouveau demi-siecle," Le Monde, February 21, 1951. A Pavlov, "Le regroupement des kolkhoz," Etudes Sovietiques, August 1950, 78-79.

(143) Cf. The Economist, January 27, 1951. In the agrograd neat houses line an asphalt avenue. That is the end of the private plot.

"huge herd" of workers now succeed? It could succeed only if the organization has become so strong that it is able to master a problem it had not solved before. The only chance that it can do so seems to be some system of really collective work combined with really individualistic remuneration. Or are Soviet authorities convinced that they can reckon upon the full collaboration of all *kolkhoz* members, even if remuneration is not according to performance?(144) It does not seem probable, especially not if unpopular measures such as reducing the private plot of land should be carried out. Yet we should not forget that State- and Party-authorities have been able to perform the first collectivization drive with people who at best knew nothing of the communist system but many a time were against it. Now nearly twenty years have passed and a new generation, fed on communist thought and no other spiritual food, has risen. So the change is much better, but the objectives aimed at are much higher. Therefore we can only wait and see the results.

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(144) This indeed is the opinion (as I found afterwards) of Mr. Schlesinger in his valuable article, "Some Problems of the Present Kolkhoz Organization," *Soviet Studies*, April 1951, 346-347. "The Party evidently considers that the period during which the incentives to work had to correspond to those formerly valid in the individual peasant's husbandry, even at the risk of delaying mechanization is now coming to an end and that the average kolkhoz peasant has become capable of understanding that greater collective effort will bring him a higher income." In a note he refers to a statement by the Soviet author Kraev who argues that the link (*zveno*) and individual system would subsequently lead to a return to small-scale peasant husbandry. That this conclusion does not seem to be quite correct we tried to point out above.

### ECONOMIC DEVELOPMENT AND SOCIAL CHANGE IN SIERRA LEONE

A report on research being carried out on a grant from the Nuffield Foundation by M. P. Banton, Lecturer in Social Anthropology in the University of Edinburgh. Fieldwork in Freetown will last for twelve months ending in December 1953.

Freetown was founded, in 1787, by settlement from Europe, and its early population was composed primarily of liberated slaves. It has never been the capital town of any of the indigenous peoples but from the earliest days it attracted traders and laborers from among the tribes of the hinterland. During the nineteenth century the groups of immigrants in the town maintained a separate existence, tribe by tribe, each with its own chief or headman. The government left these groups to settle their internal disputes and recognized the headmen as the proper channels of communication between the government and the tribal people. At the beginning of the twentieth century migration from the interior was seen to be increasing and giving rise to grave social and administrative problems, so in 1905 the headmen were given specific powers over their fellow countrymen. These they abused. In 1932 their powers were reduced but they continued to act as arbitrators in cases dependent upon tribal customary law such as the repayment of dowry money. By 1939 thirteen tribal headmen were recognized and the tribal population outnumbered the Creoles, or descendants of Liberated Africans, by two to one.

The Second World War brought money and work to Sierra Leone. The farthest corners of the Protectorate were affected by the demand for labor and large numbers of men left their villages for the towns and the army barracks. The population of Freetown nearly doubled itself. In January 1940 the number of Africans working for employers of not less than ten men was 10.9 thousand; it rose to 50.2 in December 1942 but by January 1946 it was down again to 17.6, and, despite demobilization, unemployment was kept within bounds by persuading workers to go back to their villages. Men who had been accustomed to living in the town could not always readjust to village life and many have returned to Freetown for short periods or for good. This was particularly evident in the case of ex-servicemen, many of whom had been overseas and had been used to relatively high standards of food and clothing in the forces and to remuneration in cash. Seasonal labor migration to the town during the slack period of the farming year occurred before the war and has now increased to about 2,000 persons per year—of all ages. On the other hand, the cumulative movement of migrants who settle permanently in Freetown amounts to about 1,000 persons per year, some of whom come from over the French and Liberian borders. The principal factor underlying this latter migration would appear to be the changing scale of society and the individualization brought about by economic changes. Some men wish to avoid demands upon them which are sanctioned by custom, others to avoid exactations on the part of the chiefs; in the town there is adventure, social controls are weak and no tax has to be paid. '*Stadt luft macht frei.*' Were there not more workers than jobs, more men would migrate, for wage earning employment has a strong attraction for the local peasant accustomed to subsistence farming.

No accurate information is available regarding the population of Freetown but a minimal estimate would put the tribal population at over 60,000 and the Creoles and others at about 20,000. There is little tension between the dif-

ferent tribes but some between them and the more educated Creole element. Within some tribes different factions dispute the headmanship but there is little cleavage between young and old. Most of the headmen are illiterate and the government being doubtful of their utility has not given them much support of late. Social stratification is becoming marked with the emergence of a tribal (as opposed to Creole) middle class of professional men and white collar workers, and this is taking from the headmen's position the status it once possessed. The tribes are no longer concentrated in particular areas but are widely scattered and intermarriage is frequent: the feminine exogamy rate in the eleven largest tribes is now 230 per 1,000.

Fieldwork in an African town presents peculiar difficulties. Statistics for Freetown are lacking and it is difficult to collect any upon which much reliance can be placed. When during the war a census was held for the purpose of rice rationing, many men preferred to leave the town rather than be enumerated. To get around this difficulty as far as is possible, and to avoid the value judgments inherent in concepts of disorganization, adjustment, etc., the fieldworker is concentrating upon the study of tribal social institutions in the town. Three institutions will receive particular attention: the administrative structure of the groups with their chiefs, section chiefs, etc.; friendly societies and similar associations; marriage and the decrease of polygamy. Several small surveys of sample areas will be carried out with student assistance which should provide a framework for the institutional studies. Circumstances vary greatly from case to case, all information requires very careful checking and communication is so restricted that few people are able to impart more than a limited amount of information. Compared with ordinary anthropological fieldwork research is uncomfortably dependent upon interviewing and relatively little can be based upon direct observation. Quantitatively information is probably harder to obtain in the urban situation and there is much to be said for team investigation.

Some social institutions show a notable adaptation to the new conditions and there are many examples of cultural syncretism. A significant development is the growth of friendly societies and the increased scope of their activities. The most successful have been the Ambas Geda societies formed by a Timne schoolmaster during the war ("Ambas" means "we have" in Timne; "Geda" means "together" and is of English derivation). These societies or "compins" are controlled by and composed of the younger men and their wives: they dance together, contribute to members on the death of a relative, and have a complex organization in which many members become officers. A "compin" of less than 100 may have 20 officers and their titles show a marked English influence: Sultan, Director, Mammy Queen, Manager, Commissioner, Doctor, Judge, Bailiff, Cashier, etc. These societies are coming to have increased political power within the tribe and they are taking over many of the functions of the extended family.

Economic development in Sierra Leone has continued since the war with money allocated under the Colonial Development and Welfare Acts. Now that the territory has acquired a measure of political independence and with good prospects for increased mining, it is unlikely that the pace will slacken. Development will inevitably entail the migration of labor to urban centres and many men will gather there for whom there is no work. The problem is that of guiding and keeping in check inevitable social changes, and a study of the situation in Freetown should give some indication of what can be done. The tribal group remains most important for the spread of instruction and if the government wishes to carry out any programme of mass education it will do

well to deepen this channel of communication. Many discontents at present center around the position of the tribal headman; he complains that he cannot exercise the control over his people which a person in his office should be able to do, but it is doubtful if this could be achieved simply by increasing his powers. Because so few of the tribal people qualify as rate-payers, they have at present very little say in the municipal government of the town. What is to happen in the future will depend upon the extent to which the administration wishes to make use of tribal sentiment in local government and in controlling social change. Unregulated contact between the traditional social order and the western has results which are regretted by both European and African.

M. P. Banton

Freetown, Sierra Leone

## MONEY-LENDERS AND CO-OPERATORS IN INDIA

### Statement of the Problem

No long range plan for the economic development of India can count on lasting success, unless it offers some solution to the fundamental problems of the subsistence farmers who form so large a part of the population of India.

Two interrelated aspects of one of these basic problems are those of accumulated past indebtedness and current credit needs.

An initial attack on these problems has been made through the rapid development and healthy growth of the co-operative movement. However, even steady continuous progress of the system of credit co-operatives, at the present rate, cannot be solely relied on to provide an effective answer to the questions of rural finance, on the limited time schedule planned for the initial economic development of India. The careful plans formulated by various Commissions of Enquiry and Planning Committees of the Provinces and government of India point out the serious practical obstacles faced in the realization of those programs which appear to provide the most effective permanent solution.

The purpose of this paper is to re-examine the problem and the existing programs and plans with a view to determine whether the principal recommendations of previous proposals can be integrated in a way to suggest a new approach to a workable solution of the problems of debt and credit needs of the peasants of India.

### Introduction

A vast majority of India's 360 million people live, as landless peasants or subsistence farmers, in more than five hundred thousand villages scattered throughout the country. In many ways, the life of India is the life of the villages, the fundamental economic problems are those of the villagers; the future of the land and the people who till it is the future of India.

The basic problems involved in the development of Indian agriculture are many. They include questions of land tenure and land reform, of irrigation, of techniques of production, of crop storage and marketing. An integrated plan for the development of rural India must deal with all these problems.

This paper deals with only one problem, short-term agricultural credit, in its two closely related aspects of accumulated past indebtedness and current credit needs.

An attempt is made to present the general picture of the rural debt on the basis of available facts and figures. The principal sources of current credit are examined. The economic functions of the money-lenders in the rural credit structure is discussed. The historical development and present status of the co-operative movement are analyzed in so far as they relate to the problem of short-term agricultural financing. Lack of access to pertinent primary sources restricts the discussion of current plans for the reorganization of rural credit to material available in quotations in general texts on agricultural finance in India.

At the end of each section, the main points are summarized and tentative conclusions given.

These intermediate summaries form the basis of the suggested proposal

made in the final section of this paper. No single feature of this suggested plan is new. Rather, the proposal represents an attempt to fit together known and generally accepted elements in a new way, in an effort to find yet another approach to a workable solution of one of the immediate problems of the rural population of India.

The absence of really thorough documentation makes this paper an essay rather than a study of the problem discussed. The suggestions made are not intended as anything more than yet another argument presented for discussion; they are not, in any way, based on a critical evaluation of the programs which have been attempted or the plans which have been proposed. The documentation available does not permit such an analysis nor, more fundamentally, does the writer feel qualified or entitled to present a critical discussion of plans carefully formulated by many and more competent specialists in the field.

Subject to the preceding qualification, it may not be out of place, however, to express a word of concern at the growing reluctance in Western countries to discuss freely the basic problems of the newly independent and, as yet, under-developed countries of Asia, for fear of antagonizing nationalist sensitivities. This trend seems almost an insult to the common sense of the responsible people of Asia and to their well-founded faith in the future of their countries. More than that, it is the first step towards the stifling of a free interchange of ideas, an expression of false humility deferring to false pride.

From an immediately practical point of view, suggestions made by observers from the outside might help in presenting existing problems under a new light and stimulate discussion.

And, in a wider sense, the problems of poverty in India, the problems of human misery or hopes for the future, anywhere, belong to us all.

#### The Rural Debt: Some Facts and Figures

One of the most arresting features of Indian agriculture in modern times has been the heavy burden of indebtedness under which the cultivator labors. (1)

The problem is well-known; it has been well and frequently described. The fundamental cause of this indebtedness can be traced in two main directions, to the legal frame-work within which the agricultural economy takes place and to the actual physical conditions of production.

Much has been written about the causal relationship between the rapidly accumulating rural debt and the replacement, by Anglo-Saxon concepts of contractual agreements, of the legal and economic pattern traditional in Indian village life.

The old social order bound the lender effectually to keep his demands regarding interest within limits. (2) In pre-British days, custom generally limited compound interest to 50 per cent for cash and 100 per cent for grain. No such restriction was recognized under British rule, and interest accumulated

(1) S. V. Kogekar, "Rural Co-operation - The Old Approach and the New," The Indian Journal of Economics, Vol. XXVIII, No. 106, 291.

(2) M. C. Munshi, "Rural Indebtedness," in Co-operation In India, H. J. Kaji, Ed., Bombay, 1932, 331.

without limit and was allowed by the courts. (3) Hough cites examples illustrating the accumulation of debt through the compounding of interest. One man in the Punjab who in twenty years had borrowed Rs. 350 and repaid Rs. 450, was Rs. 1,000 in debt at the end of the period. In the same province a man mortgaged his small plot of land for Rs. 26 at 37 1/2 per cent; ten years later the debt, without further loan, had grown to Rs. 500 and the creditor was given judgment in full. (4)

Sale of mortgaged land for the satisfaction of debt under a civil decree became an ordinary expedient, once land had become marketable and land transfer legally enforceable, under the provisions of the British legal system. The resulting alienation of land into the hands of money-lenders, contributed greatly to the increasing impoverishment and indebtedness of the peasant, by simultaneously depriving him of his principal source of income and further weakening his credit standing.

The increase in land values, resulting from the spread of a money economy to the villages, brought about a rapid increase of mortgage debt.

On the strictly economic side, stress has often been put on the ignorance and improvidence of the peasant and on his extravagance in meeting social obligations, leading to extensive borrowing for wholly nonproductive purposes. Rangnekar, quoting Azizul Haque's The Man Behind the Plough, feels that any such sweeping generalization is neither fair to the vast masses of agriculturalists nor that it will bear a moment's scrutiny. (5)

The crucial fact is that too many people are trying to wring a living out of too little and too exhausted land. Sixty per cent of the agricultural holdings are less than 5 acres, often excessively subdivided and fragmented. Holdings of less than one acre are not uncommon. The net area sown per individual dependent on agriculture is only 1.1 acre and decreasing still as population grows.

The implications of this basic fact are several. Agriculture is largely subsistence farming carried on in uneconomic holdings. The average farmer is able to save very little and hence the rate of capital formation in the agricultural sector is low. This means that the farmer lacks the capital to introduce improved methods of cultivation and that he has to incur debt, whenever there is a bad crop or unexpectedly large expenditure, primarily for purposes of consumption and for carrying on his normal occupation. The number of persons requiring credit, in small sums, runs into millions living in about half a million villages which, in the absence of adequate irrigation facilities, depend on the weather for the success of their crops.

As a result, the overhead expenses and the risks involved in the supply of credit to the Indian farmer are high and credit has tended to become usury, in the hands of money-lenders, in so far as a large sector of Indian agriculture is concerned. (6)

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(3) G. B. Jathar and S. G. Beri, Indian Economics, Madras, 1942, 287.

(4) Eleanor M. Hough, The Co-operative Movement in India, London, 1932, 42.

(5) D. K. Rangnekar, Agricultural Finance in India, Bombay, 1952, 87.

(6) This analysis of the situation is based on S. R. Sen, Summary of Organization and Functions of Agricultural Credit Institutions and

No exact figures exist on the total agricultural indebtedness or yearly credit requirements. Reporting in 1931, the Central Banking Enquiry Committee estimated rural indebtedness at Rs. 9,000 million; a decade later the Reserve Bank placed it at twice that figure. The Indian cultivators' current annual needs for short and medium-term capital have been placed at Rs. 8,000 million by the Grow-More-Food Enquiry Committee of the Government of India in a report published in June 1952. (7)

Little is known of how much of the accumulated debt represents actual borrowing as against compounded interest and no attempt has ever been made to ascertain the volume of interest on debt.

The war-time boom and post-war inflation have helped to reduce the debt to some extent. The Rural Banking Enquiry Committee, Government of India, 1950, (8) concludes that there has been a substantial reduction in the money and real burden of rural debt and that many of the peasants are probably able to bear their debts more easily. Others feel that no generalization along these lines is valid. They admit that agricultural prosperity resulting from war conditions may have temporarily alleviated the burden of debt. They claim, however, that only the upper strata of the rural population were in a position to appropriate the benefits accruing from inflated land values and favorable agricultural prices, so that only about 20 per cent of the rural population have improved their economic conditions, while the majority still live in penury and distress. (9)

The traditional relationship between creditor and debtor in the Indian village was upset by the introduction of the British legal system. Customary limitations on interest gave way to enforceable contracts legalizing unlimited compounding of interest. As a result, rural indebtedness grew rapidly and mortgage land was taken over by creditors in settlement of debt, thus further decreasing the borrower's credit standing while increasing his credit needs.

The conditions of Indian agriculture are such that the overhead expenses and the risks involved in extending credit are high.

While the war may have had some effect in reducing the burden of agricultural indebtedness, a fundamental solution to the problem must seek to improve the credit-worthiness of the peasants, free them of the excessive burden of accumulated debt and make available a supply of credit for current production.

#### The Money-lenders

Despite charges that they have virtually kept the peasant in bondage by trading on his ignorance, by usury always and, in time of plenty, by encouraging extravagance, the money-lenders have played a vital role in the rural

Credit problems in India, Proceedings of the International Conference on Agricultural and Cooperative Credit, Aug. 4 to Oct. 2, 1952, Berkeley, California, 733.

- (7) These figures are taken from M. L. Dantwala, "Agricultural Credit in India - The Missing Link," Pacific Affairs, Vol. XXV., No. 4, Dec. 1952.
- (8) Quoted in a private letter from Dr. H. H. Mehta, Massachusetts Institute of Technology.
- (9) D. K. Rangnekar, op. cit., 81.

economy of India. They have supplied credit, in cash or kind, when it was needed.

Agriculture, even in economically advanced countries, depends heavily on seasonal credit. In India, the institution of the money-lender dates back to very ancient times and, even today, the money-lender plays an indispensable part in the social and economic organization of the village. If the institution of money-lending has now fallen into serious disrepute and is being attacked as a major obstacle in the path of rural development, the reason must be found not in the function of money-lending itself, but rather in the abuses and mal-practices which have come to be associated with its exercise.

The principal charge against the money-lenders is that they have exploited their monopoly position as suppliers of credit in the village to gain a maximum and frequently unfair advantage by exploiting the ignorance and pressing need of the peasants.

Interest rates vary widely throughout the country. (10) They are usually high, in excess of 25 per cent, based "on what the traffic will bear" and frequently compounded monthly. In some provinces, part or all of the interest is deducted in advance from the amount borrowed, at the time the loan is made. (11) Often no written accounts are kept or loan agreements signed in blank, leaving the borrower completely at the mercy of the creditor. In many instances, the money-lender is also a grain-dealer, land-owner or merchant forcing the borrower to transact his business—to sell his grain, to rent his land or buy supplies—on the creditor's terms. Another serious charge against the money-lenders is that they are interested solely in the return on their loan capital, regardless of what use the borrower makes of the money, and that they thus encourage unproductive expenditures for social and ceremonial activities and extravagance in times of prosperity.

There seems to be little doubt that the money-lenders have abused their position. Yet, despite all charges against them, the net return on capital appears to be moderate. The risks involved and the overhead expenses of lending and collection are high and losses frequently heavy, especially in years of crop failures. It has been estimated that Indian money-lenders do not average over 15 per cent a year on their capital. (12)

Even with high margins of profit, the net income of a majority of the village money-lenders must necessarily remain small because of their limited operating capital. (13)

Beginning with the Deccan Agricultural Relief Act of 1879, a variety of legislative measures have been taken by the Government of India, aimed at controlling the activities of money-lenders and at offering protection and relief to debtors. Laws have been passed to regulate the business of the money-lenders, requiring registration, the keeping of accounts and setting maximum legal rates of interest. Attempts have been made to bring about a reduction in total indebtedness by scaling down the outstanding debt through voluntary con-

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(10) M. C. Munshi, op. cit., 331.

(11) Eleanor M. Hough, op. cit., 42.

(12) M. L. Darling, The Old Light and the New in the Punjab Village, London, 1930, 330, quoted by Eleanor M. Hough, op. cit., 42.

(13) G. B. Jathar and S. G. Beri, op. cit., 288.

ciliation or compulsory liquidation.

The Bengal Agricultural Debtors Act (VII of 1936) shows an interesting effort to return to the traditional financial relationship between borrower and lender by its provision that, while the total amount due the lender may be scaled down by arbitration, the principal of the debt shall not be reduced below the original debt, unless creditors owning 60 per cent of the sum advanced agree to such reduction. (14)

On the whole, laws trying to deal with the problem of rural indebtedness have not been successful. In the absence of an alternative supply of loan capital, to satisfy the credit needs of the rural population, legislative measures for the control of money-lending have tended to aggravate the situation by choking off the existing supply of funds.

Without effective means of freeing the peasant of accumulated past debt and of providing him with current credit, it is quite futile to decry the role of the money-lender in the economic structure of India. One of the remedies for rural indebtedness must therefore lie in bringing the money-lender into the co-ordinated system that operates under the control of the Reserve Bank of India, so that capital so vitally necessary for the country's agriculture may be available at low rates. (15)

The money-lender, perhaps at an excessive social and economic cost, has filled the gap in the credit structure. Because of high risks and heavy expenses the average return on capital appears moderate and the net total income of the village money-lender is often small. Attempts to regulate the activities and to control the abuses of money-lenders can be successful only if the credit requirements of the peasants are met from other sources or if a way can be found to integrate the money-lenders into the existing structure of rural credit activities operating under the Reserve Bank of India.

#### Short-Term Co-operative Credit

"Co-operative credit is only one aspect of a vast movement which promotes the voluntary association of individuals having common economic needs who combine towards the achievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realization of moral obligation. Co-operative credit, therefore, postulates self-help, thrift and mutual aid, and connotes mutual control and autonomy." (16)

While formal co-operative organization has been introduced in India from abroad, self-help, interdependence and co-operation are strong features of the Indian family and of the traditional village organization.

Even before the formal organization of a co-operative system, private efforts had been made, in many parts of India, to promote associations for mutual aid, particularly in the provision of loan funds. Most significant and successful of these attempts were the Nidhis of Madras Presidency. This system,

(14) J. P. Niyogi, The Co-operative Movement in Bengal, London, 1940, 112.

(15) J. P. Niyogi, op. cit., 5.

(16) V. L. Mehta, Cooperative Finance, Bombay, 1930, 2, quoted by Eleanor Hough, op. cit., 48.

based on voluntary association, confidence and honest dealings among members, had expanded to over 200 groups by 1901, including some 36,000 members disposing of more than Rs. 7 million of subscribed capital. (17) Private efforts to organize credit co-operatives on the European pattern were made by various British administrators, especially in the United Provinces where Sir Anthony Macdonnell's pioneering efforts resulted in the establishment of some 200 co-operative societies at the turn of the century. (18)

Official recognition was given to the possibility of attacking the problems of rural finance through organized self-help in the Report of the Famine Commission of 1901, which resulted in the enactment in 1904 of the Co-operative Credit Societies Act.

Under the provision of this Act, local governments were authorized to appoint registrars with full powers to organize, register and supervise co-operative credit societies, with the object of encouraging thrift, self-help and cooperation among agriculturalists, artisans and persons of limited means. The organizational basis of the societies created under this act was essentially that developed in Germany by Raiffeisen in the 1860's.

A key feature of the Raiffeisen system is that a man's power to borrow depends basically on his personal credit standing, on his character, his honesty, his diligence and thrift, as judged by his neighbors and villagers who know him. The Raiffeisen system of co-operative credit is thus based essentially on the combined personal credit of the borrowers and depends on the voluntary association of people in a small enough area to know each other well enough to assume full and unlimited liability for the debts contracted by all members. The society is organized for mutual financial assistance rather than for profit. It lends to members only. Its capital is derived from the savings of its members, from deposits from both members and non-members, from outside loans from the Government or Banks, sometimes from an initial small contribution of members' share capital and, as the society grows, from profits on loans made which are set aside in an indivisible reserve fund.

The Act of 1904 gave legal recognition to societies established for the purpose of providing credit only and made no provisions for any other co-operative activities, nor did it fully recognize the need for a freer supply of capital and an improved system of supervision based on the formation of more centralized financial agencies. These weaknesses were remedied with the passage of the Co-operative Societies Act of 1912, which is the basis of the present day co-operative system of India.

The Government of India Act of 1919, made co-operative organization the sole responsibility of the several Provincial Governments, most of which passed fundamentally similar laws regulating co-operative societies. In most provinces, there is a pyramidal co-operative structure, whose base is formed by Primary Societies (or Banks) organized in the villages on the Raiffeisen pattern. These village associations are federated into Central Banks, whose membership consists of both societies and individuals. In many of the provinces, these Central Co-operative Banks are, in turn, combined to form a Provincial Co-operative Bank, which forms the apex of the co-operative system. The owned working capital of the Primary Banks is supplemented from

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(17) P. Mukherji, The Cooperative Movement in India, Calcutta, 1923, 17.

(18) H. L. Kaji, Cooperation in India, Bombay, 1932, 17.

CHART I GROWTH IN THE NUMBER OF SOCIETIES, MEMBERSHIP AND WORKING CAPITAL FROM 1906-7 TO 1944-45

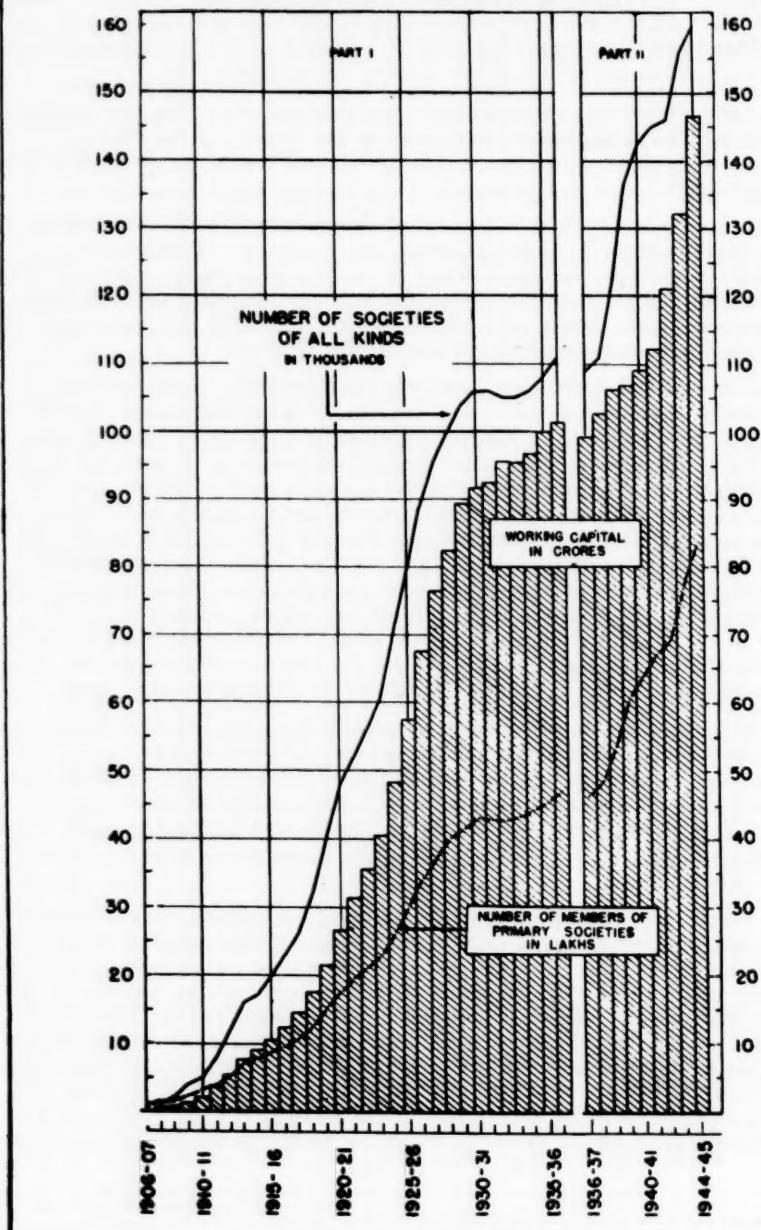
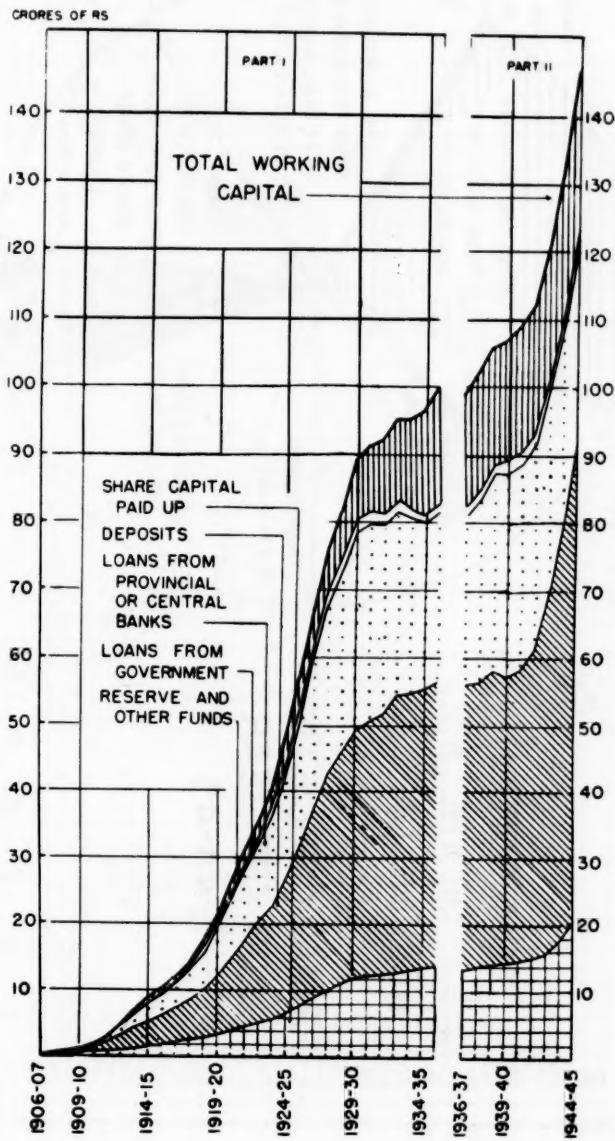
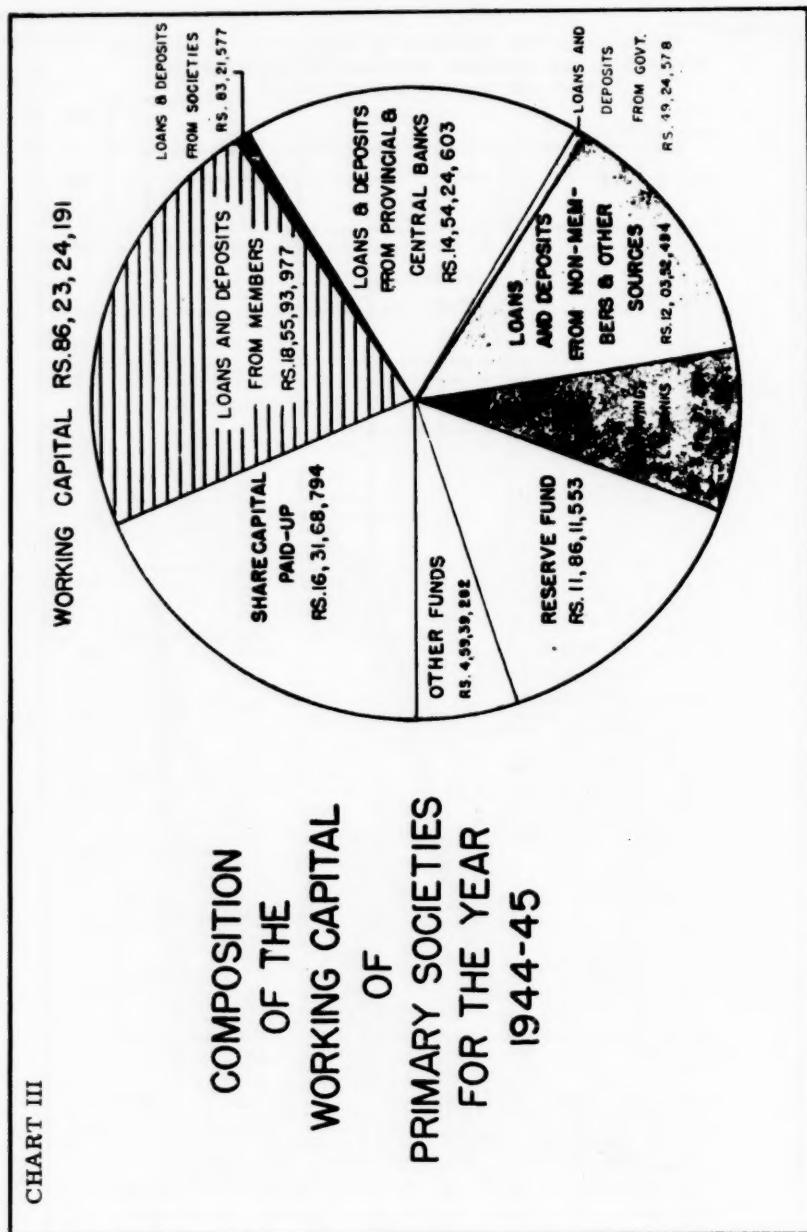


CHART II

GROWTH IN THE WORKING CAPITAL & ITS COMPOSITION  
FROM THE YEAR 1906-07 TO 1944-45

**CHART III**  
**COMPOSITION**  
**OF THE**  
**WORKING CAPITAL**  
**OF**  
**PRIMARY SOCIETIES**  
**FOR THE YEAR**  
**1944-45**



MAP SHOWING THE DISTRIBUTION OF  
CO-OPERATIVE BANKS WITH CAPITAL &  
RESERVES OF RS. 1,00,000 AND OVER.

1945

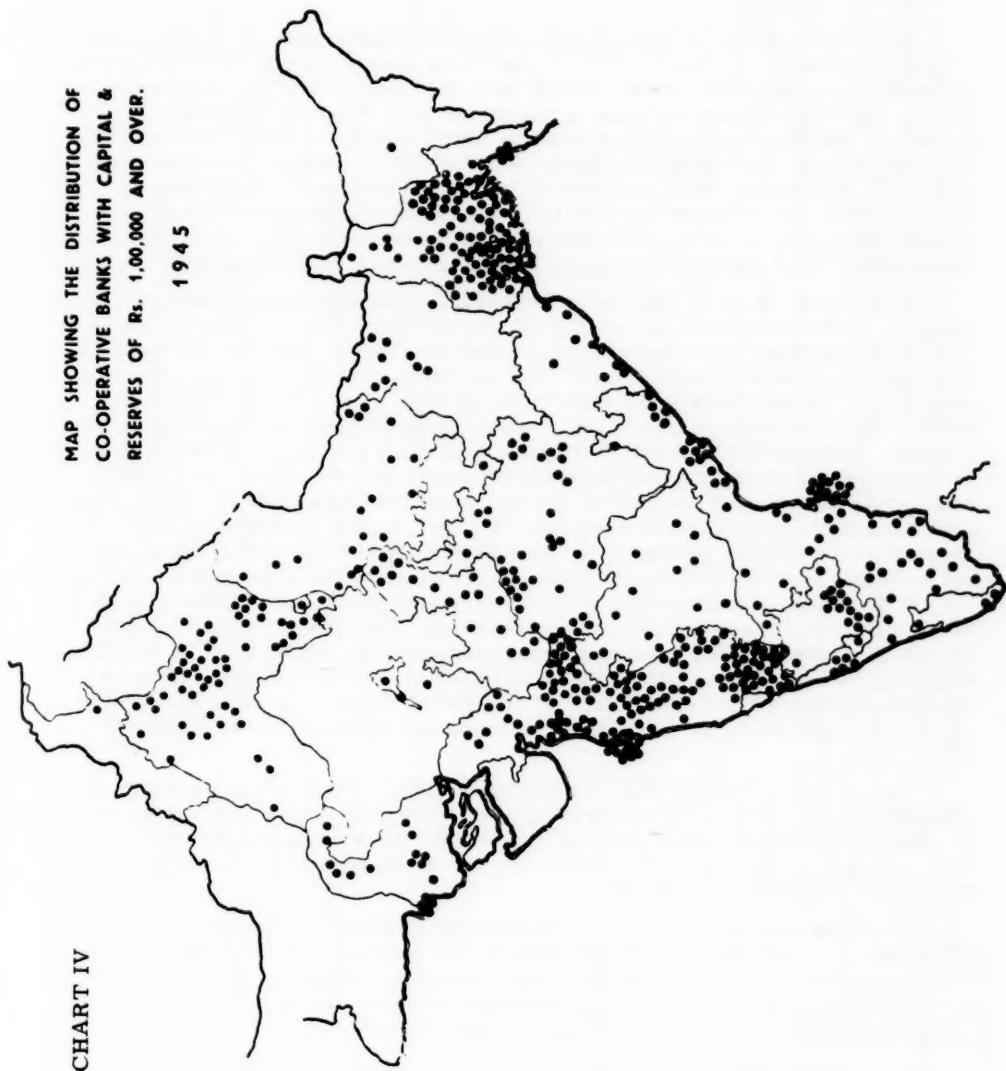


CHART IV

funds borrowed from the Central Banks which draw on the Provincial Banks, to meet their requirements. Provincial Banks, or Central Banks where no apex institution exists, are assisted by money obtained from the Government through the Reserve Bank of India, which has been authorized by successive legislation to provide accommodation, on increasingly liberal terms, to the co-operative system.

The growth of the co-operative movement in India from its inception to 1945 is illustrated in Chart I. (19) A rapid and steady rate of development is apparent throughout the entire period, with the exception of the depression years. An encouraging increase in the amounts of deposits and overall growth in working capital is indicated by Chart II. (20) Chart III shows that by 1945, a large percentage of the working capital of Primary Societies consisted of local funds, with less than 25 per cent contributed from outside sources. (20) As indicated by Chart IV, the co-operative movement did not spread with equal success throughout the whole country. The most intensive development took place primarily in Bengal, Madras, Bombay and the Punjab.

Tables Nos. 1 and 3 give some indication of the financial activities and changes in the capital structure of Primary Societies and Central Co-operative Banks, during three representative periods, the depression, war, and the first years of Indian independence. The increase in credit societies has not kept pace with the overall increase in the number of societies of all types, which seems to indicate a need for greater diversification of the co-operative system. The number of credit societies, and more particularly the figures on membership show that only a relatively small percentage of the villages and people of India are touched by the co-operative organization. A considerable expansion of co-operative activity is shown by the increased volume of loans over a period of years, while war-time prosperity is reflected in the decreasing amounts of overdue loans and growing deposits, especially during the war years. Neither owned capital nor total working capital, however, seem to have grown at the same rate as membership. The share capital and reserves of Central Banks have undergone no significant changes. The considerable growth in the number of loans made and in working capital are a reflection of greatly increased financial support of the co-operative system by the Government of India, through accommodation extended by the Reserve Bank.

The figures in Tables Nos. 2 and 4 show that a reduction in the rates of interest on both borrowing and lending of Primary Societies and Central and Provincial Banks has taken place as the co-operative system expanded between the years 1933 and 1945, while the rate of dividends on shares has remained approximately constant.

Under the unlimited liability provision of the statutes of most Primary Societies, membership in the co-operative is restricted to those who have some security to offer and who are thus, almost by definition, less hopelessly in need of financial help than those who are ineligible for membership because they lack property or other acceptable security.

(19) All charts are taken from: Reserve Bank of India, Thirty Years of Co-operation in India, Bombay, 1947.

(20) The information on these charts differ from evidence given by the Tables based on Statistical Statements Relating to the Co-operative Movement in India, published by the Reserve Bank.

Table No. 1

Operations of Agricultural Societies  
During Three Representative Periods

1932/33 - 1937/38, 1939/40 - 1945/46, 1948/49 - 1950/51

Year	Societies Number of of Year Societies	IN THOUSANDS			IN MILLION RUPEES							
		(1) Credit Societies	(2) Number of Members	(3) Loans Made	(3) Receipts from Repayment		(3) Loans Due	(3) Overdue	(3) Loans	(3) Deposits Received	(3) Owner Capital	(3) Working Capital
1932	92.5	81.5	3,038	43.1	51.8	279.4	130.0	17.3	121.9	343.9		
1933	92.2	78.3	2,985	42.1	47.7	270.3	131.1	16.7	129.3	339.9		
1934.	92.9	78.4	3,008	51.8	53.8	265.0	119.1	22.1	115.5	342.2		
1935	94.2	79.3	3,046	53.8	53.3	262.6	116.7	17.9	116.5	345.9		
1936	96.0	80.4	3,152	58.1	60.9	260.7	113.6	16.4	116.5	345.9		
1937(4)	95.7	79.7	3,163	56.5	54.3	236.7	113.6	18.7	107.9	319.8		
1939	118.7	99.9	4,098	74.4	79.6	231.4	107.1	19.8	112.0	305.1		
1940	123.7	101.3	4,341	75.2	79.1	225.0	104.1	22.4	114.2	305.3		
1941	126.2	105.4	4,573	82.1	88.8	217.4	100.2	23.6	117.0	302.0		
1942	126.0	105.5	4,493	108.2	122.9	199.8	90.9	42.7	119.1	290.8		
1943	134.8	108.9	4,815	115.3	130.7	179.1	78.9	54.2	127.0	298.4		
1944	136.4	107.9	5,013	118.2	121.9	182.0	67.9	49.2	131.9	305.3		
1945	147.0	108.2	5,501	146.0	137.8	189.2	62.3	66.8	141.3	330.1		
1948	163.9	112.3	4,454	140.4	112.4	206.4	45.6	38.1	137.4	308.0		
1949	173.1	116.5	4,817	179.8	135.1	249.6	53.6	39.3	152.9	352.2		

Based on Statistical Information Published by the Reserve Bank of India.

(1) Societies with unlimited liability. Proportion of societies with limited liability increased from less than 1 per cent to almost 15 per cent in 1945.

(2) Members of all co-operative societies, except for the years 1948, 1949 which refer to agricultural credit societies only.

(3) All loans, receipts and deposits refer to transactions with individuals only and do not include transactions with banks and other societies.

(4) Figures from 1937 on, exclude Burma.

Table No. 2

Usual Dividends and Interest Rates on Borrowing and Lending  
by Agricultural Societies in Bombay, Madras, and Punjab

	Dividend	Borrowing	Lending
<u>1933</u>			
Bombay	6 - 7 1/2	6 - 8	9 1/2 - 11
Madras	6 1/4	6 - 7 1/2	7 1/2 - 9 3/8
Punjab	5 - 10	3 - 9	3 - 12 1/2
<u>1945</u>			
Bombay	6 1/4 - 7 1/2	3 1/8 - 4	6 1/4 - 9 3/8
Madras	6 1/4	5	7 1/2
Punjab	2 - 10	1 - 8	1 1/2 - 12 1/2

Based on Statistical Information Published by the Reserve Bank of India.

Within the limits of its operations, the co-operative system appears to have been effective in providing credit at reasonable rates of interest and in encouraging expenditure for productive purposes. In the areas where co-operatives have developed most successfully, they have proved to be a valuable instrument in promoting rural welfare and in providing direction for measures necessary for agricultural rehabilitation. In almost half a century of operation, however, they have reached barely 20 per cent of the Indian villages and a lesser percentage of the farmers. Nothing indicates that even at the present encouraging natural rate of development, the co-operative system can be relied on to provide a solution to the problems of rural finance in India, without greatly increased financial and organizational assistance, which, it would appear, could best be provided by increased Government participation in co-operative development.

Table No. 4

Usual Dividends and Interest Rates on Borrowing and Lending  
by Provincial and Central Co-operative Bank in  
Bombay, Madras, and Punjab

	Provincial Banks			Central Banks		
	Dividend	Borrowing	Lending	Dividend	Borrowing	Lending
<u>1933</u>						
Bombay	4	1 - 6	4 - 8	6	1 - 5 1/2	8
Madras	9	1 - 5	4 - 6	3 1/2 - 9	1 - 6 1/2	5 - 7 1/2
Punjab	2 1/2	2 - 3	4	4 - 9	2 - 6	4 - 9
<u>1945</u>						
Bombay	5	1/4 - 2 1/2	1 - 5 1/2	5	1/2 - 4	3 - 7 1/2
Madras	9	2	3	5	3	4 1/2
Punjab	3 3/4	1 - 4	3 1/2	3 - 6	1 1/2 - 6	3 1/2 - 9 3/8

Based on Statistical Information Published by the Reserve Bank of India.

Table No. 3

Operations of Central Co-operative Banks  
During Three Representative Periods  
1932/33 - 1937/38, 1939/40 - 1945/46, 1948/49 - 1950/51

Year	IN MILLION RUPEES						
	Loans Made During The Year	Receipts From Re- Payments During The Year	Loans Due	Receipts From Loans and Deposits During The Year	Share Capital Paid Up	Reserves	Working Capital
1932	93.5	102.7	223.1	386.8	29.0	26.3	314.2
1933	93.8	110.9	212.4	385.2	29.0	29.3	308.7
1934	100.0	121.1	204.0	342.7	28.5	16.9	294.0
1935	98.7	115.0	202.3	319.3	27.8	17.1	294.2
1936	91.4	128.5	196.9	320.4	27.8	18.2	295.0
1937(1)	109.5	126.6	196.0	325.1	26.5	18.4	291.0
1939	108.7	112.7	197.5	362.0	26.5	19.5	292.2
1940	110.5	117.0	189.8	340.8	26.7	20.3	293.2
1941	130.1	131.8	187.8	385.6	26.9	21.6	298.4
1942	210.7	193.8	189.2	515.1	27.0	22.1	328.5
1943	280.1	294.4	185.6	627.9	28.0	23.4	365.9
1944	392.2	387.2	190.9	762.9	29.3	24.8	398.2
1945	430.7	419.6	203.6	906.2	30.7	25.3	450.8
1948	853.2	789.6	268.6	(2)	31.5	20.4	481.2
1949	676.3	688.0	263.4	(2)	35.4	22.6	498.7

Based on Statistical Information Published by the Reserve Bank of India

- (1) Figures from 1937 on, exclude Burma.
- (2) No figures available.

Plans for Relief of Rural Indebtedness (21)

No progress in agriculture is possible without a solution of the problem of indebtedness. Farming by a debt-ridden peasantry can never prosper.

The Bombay Plan (1944) that had caught the public attention as the first organized unofficial attempt at post-war economic planning made a superficial approach to the problem of rural indebtedness. The sponsors of the plan assumed a substantial reduction in the debt, as the result of the war boom, and suggested that it could be scaled down further by conciliation. (22) The liquidation of the remaining debt could be arranged through co-operative societies which should be provided with sufficient long-term finance for the purpose. The planners did not include this item in their estimate of capital expenditure, since they believed that "the debt of the agriculturalist represents the savings of another class and these savings would be available directly or indirectly for financing co-operative societies." Thus the Bombay planners reverted to the aid of money-lenders conveniently ignoring their usurious vocation. Moreover, a conservative approach to the problem of rural debt in utter disregard of the disastrous consequences of indebtedness—the progressive growth of a landless proletariat and the infusion of parasitic capitalism in the agrarian economy—could not be expected to increase the productivity of agriculture.

The Nanavati Committee, Bombay Agricultural Credit Organization, 1947, found that the Bombay scheme for compulsory scaling down of debts through courts and their repayment in fixed installments was satisfactory, but stressed the urgency of making adequate provision for the credit needs of the adjusted debtors and other credit worthy farmers.

The proposals of the People's Plan envisaged the nationalization of land through the issue of 40 years' self-liquidating 3 per cent State Bonds. The authors of the Plan proposed compulsory scaling down of agricultural debt to about 25 per cent and the repayment of the reduced amount by the State through the issue of similar self-liquidating Bonds.

Wadia and Merchant favored outright cancellation of the debt. Realizing the radical nature of such a proposal, they suggested that the debts should be scaled down to 25 per cent and paid off through land mortgage banks, financed ultimately by the Reserve Bank of India and recovered from the cultivators in installments spread over a number of years.

The Gadgil Committee, Agricultural Finance Sub-Committee of 1945, recommended a comprehensive plan for debt adjustment and liquidation within a limited period of two years, mainly on the lines of the Bombay Agricultural Debtors' Relief Act. In their scheme, debts of agricultural producers having hereditary or transferable interest in land were to be compulsorily scaled down irrespective of whether borrowers applied or not. For all debt adjustment work they proposed a special machinery, which was to be charged with the task of scrutinizing and determining the fair amount due from the debtor. The amount thus arrived at was to be scaled down further to the present value of the debtor's normal repaying capacity over 20 years worked out at the rate of 4 per cent interest or to 50 per cent of the normal value of his immovable assets, whichever was less. A secured debt was, however, to be

(21) Except as otherwise noted, the discussion in this section is drawn from D. K. Rangnekar, op. cit., 113 ff.

(22) This assumption is supported by the main conclusions of the Rural Banking Enquiry Committee, Government of India 1950.

reduced to less than 50 per cent of the value of the property on which the debt rested. In case the dues exceeded the total repaying capacity of the debtor, he was to be adjudged insolvent. The adjusted debts were to be paid off by transfer to land mortgage banks wherever they functioned or to a Governmental agency set up for the purpose. The agency taking over the debts was to recover the dues from the debtors in installments spread over a period not exceeding 20 years.

Realizing that this scheme of debt adjustment was likely to throw the entire system of rural credit out of gear, the Committee proposed that "the adjustment of debt should invariably synchronize in every region by the provision of agencies of credit alternative to the private creditor and by the regulation of the operation of private agencies."

The Saraiya Committee, Co-operative Planning Committee, 1946, endorsed the proposals of the Gadgil Committee.

Finally, it might be significant to review briefly the main conclusions of the Rural Banking Enquiry Committee, Government of India 1950(23) in regard to these proposals:

"We would like to put forward briefly certain considerations which suggest to us that the present period is not opportune for such experiments.

Firstly, war and post-war inflation, as already noticed, has led to a substantial reduction in the money and real burden of rural debt, and the majority of agriculturalists are now probably in a position to bear their debts more easily.

Secondly, although the total rural debt may even now be large in size, a considerable portion of this may really consist of current debt, which represents largely the working capital of agriculture, and which cannot be repaid before satisfactory alternative arrangements for the supply of such working capital are made.

Thirdly, the total finances required to pay off adjusted debts and to provide the current capital needs of all agriculturalists all over the country would run into hundreds of crores, which cannot be raised from the capital market.

The expedient of issuing "irredeemable bonds" does not solve the problem because such bonds would nevertheless be marketable, and the provision of repayment by installments, while freezing the funds of creditors for a number of years, creates serious difficulty for normal current finance. Bombay's experience has shown that neither adjustment of debts, nor the establishment of a complete machinery for provision of credit is possible within a short period of time, due to limitations of finance, personnel, and the ability of courts to deal with the work entrusted to them."

In a foreword to Mr. Rangnekar's book, Professor D. R. Gadgil summarizes the situation, as follows: (24)

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(23) Source, as previously cited.

(24) D. K. Rangnekar, op. cit., ix.

"Wherever any reorganization as radical as that in Bombay has taken place it will soon be found that a great stimulus is given to demand for funds and for all types of finance. This increasing demand could not all be met either by any possible extension of the owned resources of the co-operative movement or even by further liberalizing, within obvious over-all limits, of the policy of the Reserve Bank. The integration of agricultural finance in a state-cumco-operative system will thus create problems for which solution must be sought from at least three directions. Attempt must be made to secure that the increased resources of an agricultural society which is served by a good financial system are increasingly brought within that system. Secondly, the State would have to place at the disposal of the co-operative system such funds as it commands to the maximum possible extent—a step for which there is a parallel in many European countries. And thirdly, the State will have to integrate its entire rural economic policy and enable the co-operative system to draw upon the resources of other parts of the credit system, especially, those of the Imperial Bank, for meeting its insistently increasing needs."

Despite some differences in opinion regarding the actual importance of the rural debt at the present time, there appears to be general agreement that the problem of agricultural indebtedness is serious and requires attention. Plans have been made proposing the scaling down of the debt and subsequent repayment of the lesser amount through the issuance of bonds. Regardless of whether or not the total amount of debt outstanding is reduced by voluntary conciliation or compulsory adjustment, the financing required for both debt liquidation and current credit for the farmer exceeds in amount the money supply available through the facilities of the existing capital market. No specific suggestions for the supply of the necessary funds are made except that financial assistance is required from the Government, to be channeled either through the existing co-operative structure of rural credit or through other agencies, created especially for that purpose.

Any of these suggested solutions of the problem of rural indebtedness is likely to encounter serious difficulties, due to the limitations of finance and lack of sufficient administrative personnel.

#### Concluding Suggestions: Money-lenders as Co-operators

If there has, in fact, been a substantial reduction in debt during the war and immediate post-war period (page 142) then it would appear that now is the time to tackle the problem of indebtedness. If the debt now is less of a money and real burden than in the past and less than it may again be in the future, then the present time would seem most opportune for attempting a more or less lasting solution.

"No plan for the development of agriculture, no measure of agrarian reform, no policy of rural upliftment can have any likelihood of success unless the problem of chronic indebtedness is first solved and the man behind the plough given a chance of working on a clean slate. Nothing should seem too radical if the gravity of the rural problem is realized." (25)

With these assumptions, the following suggestions are made for dealing

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(25) D. K. Rangnekar, op. cit., 118.

with the rural financing problem — in its related aspects of accumulated debt and need for current credit — on the basis of the preceding sectional conclusions.

The government should take over the existing accumulated rural debt, compensating the money-lenders with low interest, non-negotiable bonds of long maturity. If it is deemed essential to scale down the total amount of debt outstanding, the possibility should be considered of differentiating between the amounts of the principal and of the accumulated interest and capitalizing the latter at a lower rate. The Indian Government should then encourage the use of these bonds in the formation of Co-operative Banks by keeping the interest rate on these bonds below the average rate of dividends on Co-operative Bank shares, and by authorizing the Reserve Bank to accept these bonds as security against loans and advances to Provincial and Central Banks. The Government would collect the outstanding debt from annual repayments of the peasants, through the co-operative system, over a period of years.

In order to put this plan into practice, the Indian Government would have to pass legislation for the creation of such bonds and would have to extend the present Reserve Bank Act to allow accommodation to the Co-operative banking structure on the basis of these bonds. If the funds of the Reserve Bank are not sufficient for extending loans in the amounts required by this scheme, provision would have to be made to allow the proposed bonds as backing for additional currency to be created in the amounts needed. Under the existing laws governing co-operatives, the responsibility for expanding the activities of the co-operative system to allow the implementation of such a plan would rest with the Provincial governments.

Any proposal for the solution of a problem must be judged by two criteria: Does the plan have a reasonable chance of accomplishing its aims and can it effectively be put in practice?

The suggestions made merely recombine known features of previous plans which have been accepted as feasible solutions of the rural credit problem. The issuance of State Bonds to the money-lenders would free the peasants from the immediate crushing burden of their past debts and accumulating high interest charges. Credit expansion based on these bonds would provide for the current finance needs of the farmers.

As far as practical implementation of this proposal is concerned, the policy of the Government of India has shown an ideological inclination towards nationalization, for reasons of social philosophy rather than immediate economic advantage. Nationalization of the internal debt, which now hinders the development of a sound and productive peasantry, would be a worthwhile initial move in the direction of planned welfare for India. While emphasis on nationalization of the debt rather than on nationalization of the land may, at first hand, seem a difference in appearance rather than in fact, it may be worthwhile to aim at maintaining the peasant as independent owner on his own land rather than as a tenant of the State.

Efforts to maintain independent peasant proprietorship follow traditional Indian ideas about land ownership. This raises the question, however, of what is to be done in case the farmers default on their repayment obligations to the Government. There is no easy direct answer to this question. Foreclosure and eviction of farmers who can barely wring a living out of their land would seem to be neither practical nor fair. If, despite a reduction in

the burden of debt and an accessible supply of credit for current productive use, the peasants are not able to remain solvent, then a solution must be looked for along the lines of more fundamental improvements in the methods of production. In this respect, consideration might be given to the possibility of a long term subsidy fund to promote the rationalization of agriculture, made up of the repayments received from solvent farmers on their obligation to the government.

The proposal provides a suggestion for the creation of the new funds required to meet the extensive credit needs of the farmers. These new funds will create strong inflationary pressure. It may be possible to limit this inflation by a firm price policy and by allowing participation of the bonds in current financing, only at the rate at which the new funds are needed and can be absorbed by the expanding cooperative system. If serious difficulties are anticipated in the administration of irredeemable bonds (page 155), it would be worthwhile to investigate the creation of such bonds in countries where they have been used as basis of new funds needed for economic development. Financial expansion of this type has been attempted in Russia, at the time of the emancipation of the serfs in 1861 and, more successfully, during the Restoration Period of Meiji Japan.

A major difficulty is presented by the administrative measures required to determine the actual extent of the debts against which the Bonds would be issued. The writer is not sufficiently familiar with conditions in India to propose a practical way of dealing with this difficulty, other than to suggest that a liberal policy of recognizing claims may well be the cheapest and most effective. Since the Bonds would be of long maturity, within a fairly wide range the actual amount of outstanding debt computed would not appear to be overly significant, when spread over a number of years, in view of the fundamental magnitude of the problem.

Since a majority of village money-lenders do not have high incomes, despite usurious interest rates on loans (page 143), it might be possible to induce them to work, as salaried officials, in the growing co-operative organization. This would have the advantage of putting their financial experience and knowledge of local conditions to good use, of helping to fill the need for qualified local administrative personnel and of providing alternative employment for people displaced from their money-lending activity.

Nationalization of the internal debt, with the Indian Government becoming the sole creditor of the peasant population; suggests the possibility of borrowing from abroad, in order to meet the obligations arising from the need to service and repay the bonds. If foreign assistance is desired or offered for the development of Indian agriculture, it could be made available more easily, once the problem of indebtedness would be centralized in the hands of the Indian Government.

Other conditions remaining equal, the less any plan provokes opposition among the people whom it affects and the more active public support it can command, the greater will be its likelihood of success.

The indebted peasants are likely to welcome any scheme which would free them from the immediate burden of debt without depriving them of vitally needed access to alternative sources of credit. They would benefit by being integrated with the co-operative system, which is interested not only in helping the peasants in periods of urgent financial distress but also in their long range productive rehabilitation. To make the scheme effective

in keeping the peasants from further recourse to money-lenders on ruinous terms, it would be necessary to liberalize the present lending procedures of the co-operatives, by allowing as members farmers who may not currently be eligible and by granting, within reason, loans necessary to the welfare of the peasant community, regardless of whether or not such loans are strictly productive. Until such time as the traditional behavior patterns and customs of the rural population can be reoriented to some extent, expenditures for ceremonies and feasts are as meaningful, and hence as necessary, to the peasant community as grain for seed or tools for working the land. Unless credit is made available for these purposes of fundamental interest to the village community on liberal terms, the peasant will seek to satisfy his needs from other sources, regardless of financial consequences, and will, to that extent, impede any plan of co-operative financial rehabilitation.

Any attempt to scale down the debt is, in some measure, arbitrary and compulsory. The suggestion of reducing the total debt outstanding by recognizing the principal in full and decreasing the amount of accumulated interest seems fairer and more closely in line with the traditional pattern of relationship between debtor and creditor in village India (page 139), than either outright repudiation of the debt or straight reduction to 25 per cent of the amount owned.

A liberal policy in recognizing claims and an opportunity of employment in the developing co-operative system will help to minimize the opposition of the money-lenders. Since the average rate of return on Co-operative Bank shares is between 3 and 9 per cent (page 152), the money-lenders can be expected voluntarily to invest the bonds they would receive in such banks, as long as the rate of return on these bonds were kept substantially below the current rate of return on Bank shares.

The methods suggested for attacking one of the fundamental problems of Indian agriculture are not an easy panacea.

A lasting solution calls for more than an effective means of dealing with past indebtedness and current credit requirements. Short of a complete rationalization of agriculture, correcting the conditions that give rise to indebtedness and finding ways of putting credit to productive use, short of a reconsideration of the system of land tenure and the techniques and methods of agricultural production and marketing, there does not seem to be any lasting cure for the conditions which keep the vast majority of the Indian farmers at the margin of subsistence.

The plan outlined in this paper is intended as no more than a small step towards a solution of the immediate financial problem of Indian agriculture, in the hope that the new funds created in the process of liberating the peasant from the stranglehold of past indebtedness could become the foundation of the free peasant economy which India wants. Even in the limited field discussed, the proposal, in suggesting ways of dealing with existing problems, creates new ones, particularly problems of administration and of practical finance.

Those problems, however, seem of a different order and might well be solved by a self-reliant Indian government with faith in the productive potential of the land and the people of India.

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